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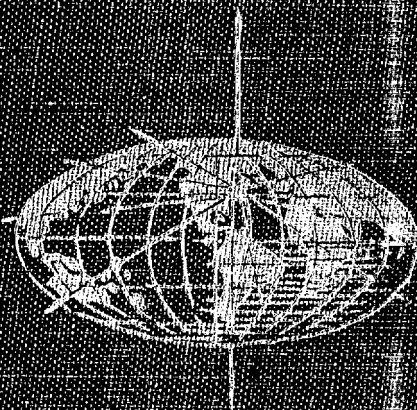
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*William W. Ellister*

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China's Gross National Product  
and Social Accounts  
1950-1957

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*The Center for International Studies*  
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

CHINA'S GROSS NATIONAL  
PRODUCT AND SOCIAL  
ACCOUNTS

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Made at the Institute of Science and Thought, Japan

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MASSACHUSETTS INSTITUTE OF TECHNOLOGY

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## China's Gross National Product and Social Accounts 1950-1957

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*by William W. Hollister*

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## FOREWORD

One focus of the research program of the Center for International Studies during the past half-dozen years has been the economic and political development of Communist China and the significance of that development for the United States. Between 1954 and 1958 the Center has sponsored the publication of four books in this area: The Prospects for Communist China, by W. W. Rostow and others; An American Policy in Asia, by W. W. Rostow and Richard W. Hatch; Scratches on Our Minds: American Images of China and India, by Harold R. Isaacs; and The Inflationary Spiral: The Experience in China, 1939-1950, by Chang Kia Ngau. We are pleased to add a fifth work, Mr. Hollister's study of the gross national product and social accounts of China during the period 1950-1957.

Although Mr. Hollister's research was not done under Center auspices, we are glad to be able to sponsor publication of his book, which is of too specialized interest to obtain commercial publication. We feel certain that it will be of great value to many students of Communist China and of economic development; it has already proven useful to us in our comparative studies of the Chinese and Indian economies.

A notable feature of Mr. Hollister's study, the construction of a partial set of sector accounts, was accomplished by a tremendous volume

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of painstaking work and the exercise of great ingenuity in analyzing the relationships among data available from various sources. We believe that his study increases greatly our knowledge of the operation of the Chinese economy.

Max F. Millikan, Director  
Center for International Studies

Cambridge, Massachusetts  
August 1958

## PREFACE

This book is intended for those who are concerned with measuring the national output of Communist China, the different uses for this output, and the distribution of income involved in its production. The years covered include the period from 1950, the first full year after Communist control over the mainland, to 1957, the last year of the First Five Year Plan. It is hoped that many concerned with analyzing specific economic questions will find the national accounts presented useful in relating specific economic activities to developments in the economy as a whole. Some of the data in discussions of methodology are related only to estimates of components in the accounts but warrant analysis of their significance apart from their importance for the accounts.

An undertaking of this magnitude is possible only with the encouragement and the assistance of many people. Those who have helped me in the process of working on the material presented are too numerous to mention in detail. However, I wish in particular to thank Philip L. Bridgham, who has given generously of his time and knowledge to help me in exploring the intricacies of the official statistics. Also, I wish to thank Professor Everett E. Hagen of the Center for International Studies at the Massachusetts Institute of Technology, Cambridge, Massachusetts, for his encouragement and for his efforts in improving the estimates

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and, even more in improving the clarity of the presentation.

The generous assistance I have received has eliminated some errors and many obscurities in the presentation, but I must take full responsibility for any errors and obscurities that remain.

William W. Hollister

Washington, D. C.  
April 25, 1958

## A NOTE ON METHODOLOGY

The series of national accounts for Communist China presented in this study is a formidable undertaking. The author can say that he has spared no effort in making the best estimates that present knowledge of the Chinese economy permits. The reader, however, may well raise two questions: first, he may ask whether it is possible to produce a set of national accounts such as those presented in this book with sufficient reliability to permit their use in economic analysis. In answering this question, it is important to realize that the estimates presented here do not purport to have the degree of precision and cross-checking of individual components of the accounts that is possible for Western countries and for Japan. The estimates do aim at recording the economic situation in Communist China as it actually exists, but the output as measured reflects the impact of Communist price policies and other economic policies, the most important of which probably are the high valuation placed on output of heavy industry and the heavy commodity taxes placed on industrial consumer goods.

Since output of producers' goods was expanding relative to other output, overpricing of producers' goods would result in overstatement of the rate of growth. There is no positive evidence of overpricing, and the cruder Soviet errors in this respect have been avoided, but it is

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possible that overpricing occurred. The effect of relatively high prices for producers' goods on the growth rate can be judged by making an alternative estimate, i.e., by applying the growth rate for each major component of GNP in constant 1952 yuan shown in Table 20, page 146, to the valuation of that component in US 1952 prices. This procedure, by reducing the relative value of the rapidly growing component, indicates an average annual rate of growth for the period 1952 through 1957 that is about 1.5 per cent lower than the rate shown in Chinese prices. (See Table 1.) However, since the true relative prices of producers' goods in China were certainly much higher than in the United States, this procedure overstates the maximum possible error due to overvaluation of producers' goods.

Except for the estimates of indirect taxes, no adjustment in factor payments or in prevailing market prices are made to insure comparability with economies operating within a framework of economic institutions such as those of non-Communist countries. Furthermore, the estimates made in a study of this kind do not attempt to assess either the wisdom or folly of the existing allocations of economic resources or the many social and political consequences which follow from the Communist system of economic organization.

Once these limitations are recognized, it is argued that the estimates presented are relatively reliable in comparison with countries in a similar state of economic development and with the system of statistical reporting that relates to such a stage of economic development.

Since these estimates depend in large part on the use of data to be found in official Chinese Communist speeches and publications, this brings us to the second question, whether it is possible to use official Chinese Communist statistics with any confidence in the results. In

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answering this question, we must start with the framework used in this study. Data in official Communist statistics are used only after they have been compared with other Chinese data for internal consistency and, to the limited extent possible, with independent evaluations of trends in the Chinese economy. The general result of this process is that: (1) substantial changes are made in the estimated trends of agricultural production for basic food crops in view of exaggerated claims for increases in agricultural output in the period from 1950 to 1954, (2) reliance is placed on subaggregate figures in the official statistics, rather than on over-all figures for "national income" in the Communist concept or figures for "consumption" and "accumulation" in the Communist concepts of the terms, and (3) data from official statistics are used only after analysis of both the classification system being used and the nature of the data indicates that they are appropriate for the specific components in the accounts.

This brings us to the question of the general reliability of official Chinese Communist statistics. The following conclusions are presented for what they are worth and as a background in evaluating the estimates given in this study. First, the official reports give no evidence of deliberate efforts to falsify data. However, the context and the interpretations placed on the statistics are very often distorted and must be disregarded to avoid misleading conclusions. Much of the data that can be found in the official reports do not make good propaganda, and data giving unfavorable conclusions as to economic trends can be found in juxtaposition with data presenting results the Communists consider favorable. When data are too unfavorable to the Communist leaders, the standard treatment in the official statistics is to omit them from the published reports entirely, leaving us with troublesome gaps in the reporting

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system and not with fabricated data to take their place.

Second, the official statistical reporting system is an integral part of the Chinese Communist system of economic controls and in the years 1950 through 1956 was also an integral part of the established policy of bringing all economic activities under the control of state enterprises or of cooperatives and joint state-private enterprises directly under state control. Furthermore, the development of the official system of statistical reports is associated with the establishment in 1950 of a high rate of taxes extending over the economy as a whole.

This situation, unlike that in non-Communist countries, has two implications. Since official statistics need to be used in making many allocations of resources that elsewhere are left to free market forces and to other economic institutions in a free society, successful implementation of the official policies of economic control over the country's resources, of effective limitation on consumption, and of operating a planned economy was possible only with the development of adequate statistics. The second implication is that official statistics, at least in the unpublished versions available to the Communist planners, are more reliable and complete in those areas of the economy where the state has direct control.

The third conclusion follows from the two conclusions given above. The difficulties faced when using the official statistics are with some important exceptions due to the general difficulties of developing adequate statistics in a country such as China, the doctrinaire forms in which they are collected and used, the frequent gaps in the data presented, and the general tendency to give data without reporting the detailed reports and the detailed methodology on which the over-all figures are based. In other words, the official statistics, published and

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unpublished, particularly in the years from 1950 through 1953, do not have adequate coverage for the economy as a whole. Agriculture is the leading example, and even where data are available to the official statistical organs they are often released with misleading interpretations of their significance and in summary form without the detail and the supporting data needed to interpret them.

Many of the missing details of the Communist system of statistical reporting are now available, and for this book every attempt has been made to use the official statistics carefully and after full recognition of their limitations. A fuller discussion of the degree of reliability of each of the components is made in the textual discussion. The results are judged to be reasonably reliable with only the range of error to be expected for an economy such as that of mainland China. The informed and careful reader will, of course, make his own judgment of the results.

This book has incorporated many revisions of the estimates as new data have become available. It was not possible to incorporate any data after March 31, 1958, and the estimates therefore represent the best estimates that could be made as of that date.

The textual discussion in Chapters 2 through 8 describes the basis for the specific estimates that are made in this book. However, it is well to state at the outset the general approach used in arriving at these estimates of China's gross national product (GNP).

Any of three general methods may be used to derive estimates of a country's gross national product. First, if estimates of the gross value of the products of each sector producing goods and services can be made, together with estimates of the sector's purchases of raw materials, fuel, and other costs of production, then, by subtracting the purchases from the sales, the gross income originating in each producing sector

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is obtained. A second approach is to estimate directly total income originating by distributive shares, i.e., wages, profits, capital consumption allowances, and other forms of income plus indirect business taxes. In practice this procedure involves estimating the distribution of the total labor force by occupation, the average wage (or average disposable income) per worker or individual entrepreneur by occupation, and the taxes, undistributed profits, capital consumption allowances, and other business savings in the economy. These two methods require detailed information regarding the economy which is not presently available for China, and the third method was used to derive the basic estimate. However, a rough estimate of the distribution of income by sectoral shares is arrived at independently.

The third method, used in this study, is to derive gross national product as the sum of final sales, i.e., total purchases by consumers, by government, and by productive enterprises on capital account, and net sales abroad. Aggregate figures which facilitate such estimates are available. Budget data and discussions of state investment in the First Five Year Plan and other Communist publications provide information on state expenditures for investment and government purchases of goods and services. Data for retail sales provide the second main source for estimates of final sales. With certain adjustments retail sales data provide an estimate of consumer cash purchases.

The components of GNP which can be estimated from budget expenditures and retail sales data constitute about 55 per cent of the estimated GNP of Communist China in 1952. Four important components are missing: (1) the imputed value of farm home consumption; (2) the value of house rent and consumer services; (3) agricultural and nonagricultural private investment; and, (4) increases in inventories of both state and nonstate enterprises.

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An estimate of the imputed value of farm home consumption was derived from estimates of the gross value of agricultural production, intrasector costs of production, and farm sales to the nonagricultural sector, including tax payments in kind. House rent and purchases of consumer services were estimated from sample studies of rural and urban per capita expenditures. The sample studies of rural per capita expenditures were also used to estimate farm purchases of tools and related agricultural investment expenditures. Private investment in the non-agricultural sector is estimated to be small, but the basis for estimating its size is far from satisfactory. Changes in inventories were estimated on the basis of data showing changes in stocks of state trading enterprises, in the capital of private trading enterprises, and in the working capital of state industry. From these, estimates for total trade and industry were arrived at by various methods. The imputed value of farm home consumption and the estimate of increases in inventories (constituting, respectively, 32 per cent and nearly 4 per cent of the estimated GNP in 1952) are probably the least reliable of the estimates for final sales.

An estimate of gross product was derived from these estimates of final sales. Utilizing less aggregated data together with those described above, it was possible to derive a schedule of charges against the gross product and to subdivide the National Income and Product Account into accounts for Agriculture, Nonagriculture, Household, Government, and Saving and Investment.

The aggregate estimate for 1952 and sources, data, and individual components of the total for this year have been roughly checked by the use of other methods of estimation. The technique employed permitted the construction of similar estimates of GNP for the years 1950, 1951, and 1953-1957, except that some of the component data were not

CHINA'S GROSS NATIONAL  
PRODUCT AND SOCIAL  
ACCOUNTS



# I

## THE FUNCTIONING OF THE CHINESE ECONOMY, 1950-1957

The chapters which follow present a detailed estimate of Communist China's "social accounts" for the period 1950-1957. From the estimates it is possible to draw important conclusions concerning the operation of the Chinese economy and changes in that economy during the period. Salient facts concerning the level and trend of China's aggregate output during the period, the uses to which it was put, and the changing distribution of income in the economy are summarized below.

### Aggregate Output

Three major conclusions concerning aggregate output suggest themselves: its rapid rise during the period; its very low level, both in the aggregate and per capita, relative to the United States; and the conceptual impossibility of estimating precisely its ratio to output in the United States.

Gross national product (GNP) in Communist China in 1950, valued at constant 1952 market prices, was 55.0 billion yuan. In 1957 it was 102.4 billion yuan (see Table 1). The increase during the seven-year period was 86 per cent, equal to an average rate of increase of 9.3 per cent per year. However, the increase was more rapid from 1950 to

[1]

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available for the years 1950 and 1951 and less direct methods had to be used. For this reason, less confidence can be placed in the results for these years. The estimates for 1953 to 1956 appear to be as reliable as those for 1952. The 1957 estimate is based on preliminary Chinese estimates of the various data for 1957; these figures may be revised later in the official statistics. As is so frequently the case in estimates of this nature, the probable margin of error in estimates for specific components (with the exception of budget data and retail sales) is greater than in the over-all total. Some components which were estimated only by rather elaborate and difficult procedures turned out to be minor in magnitude. Examples are major repairs, nonstate investment, and non-budget revenues of state enterprise. The procedures were necessary, however, to determine the size. They also establish a framework for improving the estimates as more data become available.

Tables presenting the Gross National Income and Product Account, the five sector accounts, gross national product in constant 1952 prices, and a comparison of aggregate output in China and the United States appear in each section or chapter which explains its derivation.

## A NOTE ON SOURCES

The source references given below and at the end of each chapter are taken from many sources, but they group themselves into the following categories.

First, we have the admirable series of translations by the American Consulate General in Hong Kong. These translations are in three series: (1) Survey of the China Mainland Press, abbreviated in the source references as SCMP; (2) Current Background, giving key speeches and documents, abbreviated in the source references as CB; and (3) Extracts from China Mainland Magazines, giving important articles from various economic journals, abbreviated in the source references as ECMM.

Another important source, the releases of the New China News Agency, the official news agency, are abbreviated as NCNA.

In addition, there are Communist periodicals and newspapers. The most important of these publications used as sources of data are T'ung-chi Kung-tso (Statistical Work), abbreviated in the source references as TCKT, and T'ung-chi Kung-tso T'ung-hsun (Statistical Work Bulletin) abbreviated in the source references as KTTH. Many articles appearing in Chinese Communist periodicals have been cited in translation in Extracts from China Mainland Magazines referred to above.

These three categories of sources comprise the bulk of the sources used. Others when used are cited in full in the source references.

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Table 1  
GROSS NATIONAL PRODUCT OF COMMUNIST CHINA,  
1950 - 1957  
(In Constant 1952 Prices)

| Year | Gross National Product |  | Index<br>1950=100 | Index of Per Capita<br>GNP, Assuming<br>Population Growth at<br>2 Per Cent Per Year<br>1950=100 |
|------|------------------------|--|-------------------|---|
|      | Billions<br>of Yuan    | Percentage<br>Increase<br>over<br>Previous<br>Year |                   |   |
| 1950 | 55.02                  | ...  | 100               | 100   |
| 1951 | 62.85                  | 14   | 114               | 112   |
| 1952 | 67.86                  | 8  | 123               | 119   |
| 1953 | 77.06                  | 14   | 140               | 132   |
| 1954 | 81.92                  | 6  | 149               | 138   |
| 1955 | 85.41                  | 4  | 155               | 141   |
| 1956 | 97.21                  | 14   | 177               | 157   |
| 1957 | 102.42                 | 5  | 186               | 162   |

Source: For GNP, see Table 14. Indexes and percentages computed.

1953 than in later years. Between 1950 and 1953, as agricultural output recovered, industrial output was restored, and unemployed or under-employed workers were mobilized by the government for its administrative, military, and investment programs, the average annual increase in GNP was nearly 12 per cent. By this time much of the slack was out of the economy, and the rate of increase fell sharply. The average rate for the period 1953-1957 was about 7 per cent. Annual increases varied greatly, mainly because of variations in agricultural output and the effect of a varying output of industrial raw materials on the following year's industrial output.

[3]

China's GNP in 1955 was about 92 billion yuan (new currency) in current prices. Since her population was about 600 million, her per capita output was about 150 yuan. In the same year the United States had a GNP of \$391 billion; her per capita output was \$2,360. At the prevailing rate of exchange between the yuan and the dollar, China's GNP was equivalent to \$37 billion and her per capita output to \$60. These figures are 9.5 per cent and 2.5 per cent, respectively, of the corresponding figures for the United States.

However, if China's GNP is valued in dollars by pricing each type of goods and services produced in China at the dollar price of similar goods and services in the United States,\* China's aggregate and per capita GNP are much higher fractions of those in the United States. On the other hand, if each type of output of the United States is valued at the prices prevailing for it in China, the Chinese figures are much smaller fractions of the American. These comparisons are shown in the tabulation below (derived from Table 21):

Comparative Output, China and  
United States, 1955

|                 | Basis of Comparison |          |                    |          |                 |          |
|-----------------|---------------------|----------|--------------------|----------|-----------------|----------|
|                 | Exchange Rate       |          | Pricing in Dollars |          | Pricing in Yuan |          |
|                 | Value               | Per Cent | Value              | Per Cent | Value           | Per Cent |
| GNP (billions): |                     |          |                    |          |                 |          |
| China           | 37                  | 9.5      | 88                 | 22.5     | 92              | 6.8      |
| United States   | 391                 | 100.0    | 391                | 100.0    | 1,354           | 100.0    |
| Per capita      |                     |          |                    |          |                 |          |
| income (units): |                     |          |                    |          |                 |          |
| China           | 60                  | 2.5      | 145                | 6.1      | 150             | 1.8      |
| United States   | 2,360               | 100.0    | 2,360              | 100.0    | 8,200           | 100.0    |

\* Of course, many types of goods and services produced in China are not identical in nature to any produced in the United States and cannot be directly priced in dollars. For these goods and services it is necessary to assume a price

[4]

Thus the comparison in dollars and that in yuan yield strikingly different results. The former indicates a ratio of China's output to that of the United States more than three times as large as the latter.

The reason for these wide differences is explained briefly in Chapter 9. In a sense the comparison in dollars is an evaluation from the American viewpoint, and the comparison in yuan is an evaluation from the Chinese viewpoint. It is an economic truism that even from these respective viewpoints the valuation in dollars overstates China's output relative to that of the United States, while the valuation in yuan understates China's relative output (see Chapter 9), but it is not possible to measure the degree of this theoretical overstatement and understatement. The maximum quantitative statement that can readily be made, even assuming the complete accuracy of the statistics, therefore, is that China's GNP in 1955 was between 6.8 and 22.5 per cent of that in the United States, and that per capita output in China was at least 1.8 per cent and not more than 6.1 per cent of that in the United States. But even these statements set useful quantitative limits to any analysis of relative output in the two countries.

#### Uses of Gross Output

The paragraphs below analyze the changes during the period 1950-1957 in the shares of GNP devoted to various uses. A constant share of GNP devoted to a given use implies, of course, a rapidly increasing absolute amount of expenditures for that use, since aggregate GNP was rising rapidly.

in dollars which bears the same ratio to their price in yuan as does the American price of other goods of the same general class to the yuan price of identical goods which are produced in China. The standard exposition of this sort of comparison between countries is that given in Milton Gilbert and Irving B. Kravis, *An International Comparison of National Products and the Purchasing Power of their Currencies*, Organization of European Economic Cooperation, Paris, 1954.

[5]

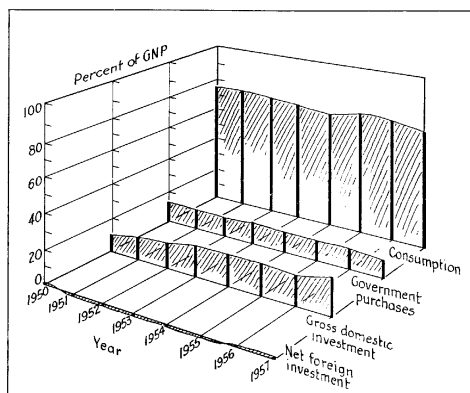
The shares which were devoted to given uses varied markedly, as Figure 1 indicates. Government purchases of goods and services for current uses (i.e., other than for capital formation) rose at about the same rate as GNP and remained at about 11-12 per cent of GNP throughout the period, except for the years 1951 and 1957. Increased military expenditures in 1951, a result of the Korean war, caused the percentage to rise to 13.4 in that year. It is surprising that the continuation of these expenditures in 1952 did not cause the percentage to remain high in that year. The budget figures from which the estimates are derived may understate actual military expenditures in 1952, either by inclusion of military construction items in the investment category or by exclusion from budget expenditures of some Soviet military aid in 1952. In 1957 the ratio of government purchases to GNP was reduced significantly below the ratio in previous years.

Gross domestic investment rose from 9.0 per cent of GNP in 1950 to 17.8 per cent in 1954. The proportion then declined somewhat in 1955 and 1956, but rose to 20 per cent in 1957 because of very large investment in inventories to offset their depletion during 1956. A feature of the growth of investment has been the rise in budgeted state investment exclusive of increases in inventories. From approximately 3 per cent of GNP in 1950, state investment rose to more than 12 per cent in 1954. The percentage declined somewhat in 1955, rose further to 15 per cent in 1956, but declined to 13 per cent in 1957. State investment expenditures were allotted primarily to expanding the output of the relatively modern sector of the economy; they included relatively little investment in agriculture.

Although the estimates of nonstate and agricultural investment and increases in inventories are the most uncertain of the expenditure estimates, investment of these three types does not appear to have increased

[6]

Figure 1  
PERCENTAGE DISTRIBUTION OF GROSS NATIONAL PRODUCT  
BY END-USE, COMMUNIST CHINA



|                           | 1950  | 1951  | 1952  | 1953  | 1954  | 1955  | 1956  | 1957  |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Consumption               | 79.8  | 76.9  | 74.8  | 72.5  | 70.9  | 73.3  | 72.8  | 69.8  |
| Government purchases      | 10.9  | 13.4  | 11.7  | 12.4  | 11.7  | 11.7  | 11.1  | 9.8   |
| Gross domestic investment | 9.0   | 11.3  | 14.9  | 16.3  | 17.8  | 16.2  | 15.8  | 20.0  |
| Net foreign investment    | +0.3  | -1.6  | -1.4  | -1.2  | -0.4  | -1.2  | +0.3  | +0.4  |
| GNP                       | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Computed from Table 1.

[7]

as fast as GNP. Combined, they averaged 6.5 per cent of GNP in 1950 through 1953 and only 4.6 per cent in 1954 through 1957.

A small share of the domestic investment and government purchases was financed by an inflow of capital in the period 1950-1955. The excess of purchases from abroad over sales to abroad during these years averaged 1 per cent of GNP. This excess must have been financed either by drawing down foreign balances or by loans or grants from abroad (predominantly from the Soviet Union). By 1956, however, net foreign aid was negative. Repayments on foreign loans and foreign aid exceeded foreign credits received by China, and to make them China was forced to export more than she imported. This was also true in 1957.

The sharp rise of investment as a per cent of GNP was necessarily balanced by a corresponding fall in the ratio of consumption expenditures to GNP (since the ratio to GNP of government expenditures for current purposes remained approximately constant). The ratio of consumer expenditures to GNP was 80 per cent in 1950, fell to 71 per cent by 1954, rose slightly to 73 per cent in 1955 and 1956, and declined again to about 70 per cent in 1957. The absolute level of aggregate consumer expenditures, however, rose by about 60 per cent between 1950 and 1957. (See Table 14.)

#### Distribution of Gross Income

The savings necessary to finance the rapidly rising volume of investment were obtained predominantly from increased profits and capital consumption allowances of state enterprises. Total domestic saving (the sum of Gross Domestic Investment and Net Foreign Investment in Figure 1) rose from 9.3 per cent of GNP in 1950 to 20.4 per cent in 1957. State enterprise profits plus their capital consumption allowances and major repair funds increased from less than 3 per cent of GNP in 1950 to more than 13 per cent in 1956 and 1957. (See Tables I and VI.) According to budget

[8]

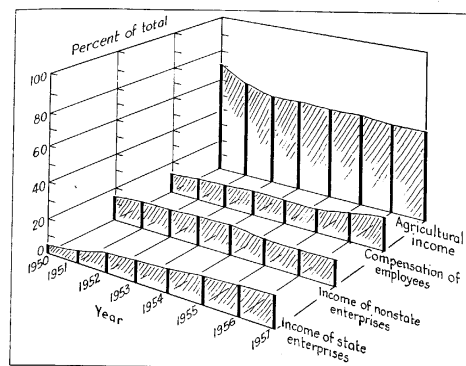
data, the government surplus on current account, excluding receipts from bond sales, also increased as a percentage of GNP, with the result that the gross state enterprise savings plus this surplus rose from 3 per cent of GNP in 1950 to more than 15 per cent in 1955 and 1956, and to nearly 17 per cent in 1957. A direct estimate of personal saving, including saving of nonstate enterprises, indicates that private and personal saving remained between 3 and 4 per cent of GNP throughout 1950 to 1955 (see Table IV), declined to 2 per cent in 1956, and rose to 5 per cent in 1957. Since the discrepancy between estimates for gross product and for gross income is plus 5 per cent in 1950 and is between minus 6 and minus 4 per cent for 1952, 1953, and 1955, these estimates are subject to a considerable margin of error. (See Table I.) However, the figures probably reflect the actual trends in domestic saving.

The ratio of consumer expenditures to GNP fell because consumer incomes were held down by government measures. An increasing share of income was channeled into profits of state enterprises to finance state investment. One important factor in this increase was the rapid expansion of state trade. There was a large increase both in the share of agricultural marketing controlled by state agencies and in the share of total agricultural production marketed. State control over commercial trade other than in agricultural products also increased. State enterprises controlled only 16 per cent of all commercial trade turnover in 1950, but 60 per cent in 1955. The share of agricultural output (excluding intrasector production costs) sold to the nonagricultural business sector rose from 33 per cent in 1950 to about 40 per cent in 1954 and stayed at this level through 1957. (See Table II.)

The second factor tending to increase the aggregate income of state enterprises was the rapid increase in industrial output, particularly output

[9]

Figure 2  
PERCENTAGE DISTRIBUTION OF GROSS INCOME AT FACTOR  
PRICES, COMMUNIST CHINA



|                                | 1950  | 1951  | 1952  | 1953  | 1954  | 1955  | 1956  | 1957  |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Agricultural income            | 70.4  | 61.2  | 57.7  | 53.6  | 51.3  | 51.6  | 49.8  | 49.8  |
| Compensation of employees      | 11.0  | 14.2  | 15.7  | 16.3  | 16.4  | 16.5  | 19.2  | 19.8  |
| Income of nonstate enterprises | 14.4  | 16.7  | 16.1  | 17.5  | 17.4  | 15.9  | 14.2  | 13.6  |
| Income of state enterprises    | 4.2   | 7.9   | 10.5  | 12.6  | 14.9  | 16.0  | 16.8  | 16.8  |
| TOTAL                          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Computed from Table I.

[10]

of state industrial enterprises, combined with the action of state agencies in buying agricultural products at prices that were low relative to prices for industrial products, and in holding down labor costs. By increasing profit margins for industrial products, state industrial enterprises were able to remit large profits to the state for investment purposes. Of lesser quantitative importance were high commodity taxes which permitted an increasing surplus of government receipts over government expenditures for current purposes.

These policies and the faster rate of increase of industrial output than of agricultural output are reflected in the percentage distribution of gross income received by various sectors of the economy shown in Figure 2. The data are for gross income net of indirect taxes. The net income plus capital consumption allowances of state enterprises rose from about 4 per cent of GNP in 1950 to about 17 per cent in 1956 and 1957. Despite rapid increases in output of industry, modern transportation, and construction, and hence in the number of employees, from 1952 to 1955, the compensation received by employees remained at about 16 per cent of GNP. A large increase in wage rates in 1956 raised the proportion for wages to about 20 per cent in 1956 and 1957. Income of nonstate enterprises (including all nonagricultural private income other than compensation of employees, and including income of joint state-private and cooperative enterprises) varied between 16 per cent and 18 per cent during the period 1951-1955. The proportion declined to 14 per cent in 1956 and 1957. Necessarily associated with these increases was a decline in the ratio of agricultural income to GNP from 70 per cent to 50 per cent for the years 1956 and 1957.

The chapters which follow present the detailed estimates which underlie these statements and present much additional information about output and income in the Chinese economy during the eight years surveyed.

## 2

### CHINA'S GROSS NATIONAL INCOME AND PRODUCT IN CURRENT PRICES, 1950-1957

Estimates of the gross national income and product of Communist China for 1950 through 1957 are presented in Table I, and sector accounts are shown in Tables II through VI.\* The basic framework of accounts employed in this report was adopted from that used by the United States Department of Commerce (National Income Division). Certain changes were necessitated by the nature of the Chinese economy and the nonavailability of some types of data. Since net foreign investment in China is small and there is not sufficient information to detail the interrelationships of foreign trade with the government and business sectors, a sector account for China's transactions with the rest of the world is not presented. All transactions with the rest of the world are incorporated in the nonagricultural business account. A second modification is that only state enterprises are treated as incorporated enterprises. Although the nonstate business sector has many enterprises that are incorporated, the bulk of private nonagricultural business income is from trade, handicraft workshops, and other activities better classified as unincorporated enterprises. Furthermore, there is no adequate basis on which to estimate private business profits separately from

\* The figures of Table I are derived from items appearing in the sector accounts. The detailed explanation of the estimates is given in conjunction with the individual sector accounts.

[11]

[12]

Table I. GROSS NATIONAL INCOME AND PRODUCT  
1950 - 1957\*  
(Billion Yuan)

| Line |  | 1950  | 1951  |
|------|--|-------|-------|
|      | <u>Sales</u>                               |       |       |
| A    | Personal consumption expenditures          | 36.25 | 46.85 |
| B    | Gross domestic investment                  | 4.08  | 6.90  |
| C    | Net foreign investment                     | .15   | -.96  |
| D    | Government purchases of goods and services | 4.94  | 8.17  |
| E    | GROSS NATIONAL PRODUCT                     | 45.42 | 60.96 |
|      | <u>Charges</u>                             |       |       |
| F    | Agricultural income                        | 28.70 | 36.00 |
|      | Nonagricultural income                     |       |       |
| G    | Compensation of employees                  | 4.50  | 8.36  |
| H    | Rent and consumer services                 | 2.28  | 3.07  |
| I    | Income of nonstate enterprises             | 3.57  | 6.78  |
| J    | Income of state enterprises                | 1.60  | 4.39  |
| K    | Miscellaneous government income            | .10   | .24   |
| L    | Indirect taxes                             | 2.22  | 3.48  |
| M    | Statistical discrepancy                    | 2.45  | -1.36 |
| N    | CHARGES AGAINST GROSS NATIONAL PRODUCT     | 45.42 | 60.96 |

\* Figures given are in current prices.

Sources (lines are numbered consecutively in Tables II through VI):

Line A - Sum of lines 1, 2, 9, 10, and 11; see also lines 42-46.  
Line B - Sum of lines 3, 13, 16, 17, and 18; see also lines 75-79.  
Line C - Line 15 minus line 21; see also lines 80-81.  
Line D - Line 14 plus line 35; see also lines 64 and 65.  
Line E - Sum of lines A through D.  
Line F - Line 7; see also line 33.

[13]

Table I. GROSS NATIONAL INCOME AND PRODUCT,  
1950 - 1957\*  
(Billion Yuan)

| Line | 1952  | 1953  | 1954  | 1955  | 1956   | 1957   | Line |
|------|-------|-------|-------|-------|--------|--------|------|
|      |       |       |       |       |        |        |      |
|      | 50.77 | 59.73 | 63.07 | 67.50 | 77.49  | 79.92  | A    |
|      | 10.09 | 13.46 | 15.83 | 14.95 | 16.82  | 22.84  | B    |
|      | -.92  | -1.01 | -.31  | -1.08 | +.32   | +.51   | C    |
|      | 7.92  | 10.20 | 10.40 | 10.73 | 11.80  | 11.18  | D    |
|      | 67.86 | 82.38 | 88.99 | 92.10 | 106.43 | 114.45 | E    |
|      |       |       |       |       |        |        |      |
|      | 39.00 | 43.40 | 43.60 | 46.30 | 49.80  | 53.20  | F    |
|      |       |       |       |       |        |        |      |
|      | 10.65 | 13.22 | 13.89 | 14.77 | 19.18  | 21.10  | G    |
|      | 3.40  | 4.39  | 5.34  | 5.81  | 6.71   | 7.41   | H    |
|      | 7.49  | 9.76  | 9.43  | 8.42  | 7.45   | 7.08   | I    |
|      | 6.86  | 9.88  | 12.43 | 14.23 | 16.66  | 17.80  | J    |
|      | .24   | .33   | .21   | .17   | .17    | .09    | K    |
|      | 4.47  | 5.53  | 6.14  | 6.15  | 7.44   | 7.59   | L    |
|      | -4.25 | -4.13 | -2.05 | -3.75 | -.98   | +.18   | M    |
|      | 67.86 | 82.38 | 88.99 | 92.10 | 106.43 | 114.45 | N    |

Line G - Line 23 plus line 64; see also lines 34 and 35.

Line H - Line 24 plus line 25; see also lines 36 and 37.

Line I - Line 26; see also line 38.

Line J - Sum of lines 27, 28, and 29; see also lines 54, 58, and 70.

Line K - Line 22; see also line 57.

Line L - Line 30; see also line 55.

Line M - Line 31; see also line 73.

Line N - Sum of lines F through M, equal to line E.



[14]

other private income. As a result, the only business savings that appear in the business accounts are those of state enterprises; all nonstate business savings are an undisclosed part of personal saving. Since inadequacy of data also prevents distinguishing between domestic service and unincorporated business production of consumer services, all non-government consumer services are treated as if provided by unincorporated enterprises and are included in the business sector. Finally, all government business activities except production by labor camps are included in the nonagricultural business sector. As a result, the scope of the government sector is almost the same as in the sector accounts for the United States.

### 3

#### THE AGRICULTURAL BUSINESS SECTOR ACCOUNT

Estimates of agricultural income for 1950 through 1957 are presented in Table II. The complicated process by which they were derived is summarized here and explained in detail in the sections that follow.

The first step was to estimate total cash plus imputed sales of agricultural commodities (first for 1952, then for 1950 through 1957). Next, an estimate was made of intrasector production costs, which are also intrasector sales. These were subtracted from total sales of agricultural commodities to derive an estimate of sales to other sectors (including farm households). Because the data are interrelated the estimating of intrasector production costs involved simultaneous estimates of production costs paid to other sectors (Table II, line 6) and of intra- and intersector investment expenditures. Intrasector investment expenditures are shown in Table II, line 3. Third, an imputation was made of the value of house rent and intrasector consumer services (Table II, line 2). Adding their value to sales of agricultural commodities to other sectors (including farm households) yielded the estimate of total sales shown in Table II, line 5. Next, total sales to the nonagricultural business sector (line 4) were estimated. Finally, farm home consumption (line 1) was computed as a residual. Since it was not estimated directly, there

[15]

[16]

Table II. THE AGRICULTURAL BUSINESS SECTOR  
1950 - 1957  
(Billion Yuan)

| Line |  | 1950  | 1951  |
|------|--|-------|-------|
|      | <u>Sales</u>                           |       |       |
|      | To households                          |       |       |
| 1    | Farm home consumption                  | 17.40 | 22.50 |
| 2    | House rent and consumer services       | 1.60  | 2.10  |
| 3    | To agriculture on capital account      | .60   | .70   |
| 4    | To nonagricultural business sector     | 9.80  | 11.60 |
| 5    | TOTAL SALES                            | 29.40 | 36.90 |
|      | <u>Purchases and Charges</u>           |       |       |
| 6    | Purchases from nonagricultural sector  | .70   | .90   |
| 7    | Charges against gross national product | 28.70 | 36.00 |
| 8    | TOTAL PURCHASES AND CHARGES            | 29.40 | 36.90 |

Sources: (Lines are numbered consecutively in Tables II through VI):  
For lines 1-6, see text.  
Line 7 equals line 8 minus line 6.  
Line 8 equals line 5.

can be no discrepancy in the sector account.

Agricultural income is by far the largest component of gross national income (GNI). Making an estimate of it is handicapped by difficulties in methodology and by a lack of data. To the extent that the farmer purchases and sells to the nonagricultural sector he is a part of the national economy, where outgo and income can be related to retail sales and the value of farm products sold. But much of his final production is consumed on the farm or is exchanged with other farmers. The estimates of this portion, valued in 1952 at about one-half of total gross farm income and about one-third of GNP, are based on data that are less reliable than those underlying most of the other estimates in this study.

[17]

Table II. THE AGRICULTURAL BUSINESS SECTOR  
1950 - 1957  
(Billion Yuan)

| 1952  | 1953  | 1954  | 1955  | 1956  | 1957  | Line |
|-------|-------|-------|-------|-------|-------|------|
|       |       |       |       |       |       |      |
|       |       |       |       |       |       |      |
| 21.60 | 24.50 | 23.70 | 25.50 | 28.50 | 29.00 | 1    |
| 2.20  | 2.50  | 2.50  | 2.60  | 2.80  | 3.00  | 2    |
| .80   | .90   | .90   | 1.00  | 1.00  | 1.10  | 3    |
| 15.60 | 17.00 | 18.10 | 18.90 | 19.60 | 22.50 | 4    |
| 40.20 | 44.90 | 45.20 | 48.00 | 51.90 | 55.60 | 5    |
|       |       |       |       |       |       |      |
| 1.20  | 1.50  | 1.60  | 1.70  | 2.10  | 2.40  | 6    |
| 39.00 | 43.40 | 43.60 | 46.30 | 49.80 | 53.20 | 7    |
| 40.20 | 44.90 | 45.20 | 48.00 | 51.90 | 55.60 | 8    |

#### Total Sales by the Agricultural Sector

##### Gross Value of Agricultural Products, 1952

The gross value of agricultural production and of subsidiary farm occupations in 1952 is given in Chinese Communist statistics as 48.392 billion yuan.\* The best available Chinese estimate of the value of major components of this aggregate figure is given in the first column of Table 2. In order to test the figures and to permit reasonable estimates of trends in gross value of output in the different years, a direct estimate

\* This figure is reported in a compilation of "Statistical Tables on the National Economy of Communist China, 1955" (CB, No. 429, November 26, 1956), issued in connection with the Statistical Report on the Fulfillment of the National Economic Plan for 1955. It is the most valuable single source used in this report. It is used so extensively that it will be referred to in this book simply as "The Statistical Tables."

[18]

of the value of production was made. It is presented in the Appendix. It is based on production estimates for the commodities concerned, data on farm procurement prices, data on average retail prices (for many but not all agricultural commodities), and sample data on farm procurement prices as a percentage of city prices. In Table 2 the estimates derived by this procedure are given and compared to the official figures. This subsection indicates the use made of the official estimates and the direct estimates, respectively, in valuing the output of various groups of agricultural commodities. The third column of Table 2 presents the estimates of the gross value of output arrived at by these procedures.

Available price data indicate that the valuation placed on basic food crops and on industrial crops in the official statistics (see Table 2) is probably not at farm procurement prices. The official statistics indicate production of basic food crops and industrial crops of 146.20 million tons of "fine grain," a value of 175 yuan per metric ton, and total value of about 25.6 billion yuan.\* The term "fine grain" as used almost certainly refers to hulled rice or to wheat or to the equivalent of wheat in areas north of the Yellow River and the equivalent of hulled rice south of the Yellow River.

The price per ton at which the value of basic food crops in Table 2, column 1, is computed is probably too high, for it is probably the selling price for wheat and hulled rice in market towns, which includes handling and processing costs. Data on farm procurement prices are more adequate for rice and for wheat than for many of the other basic food crops. Applying these data to the official volume figure of 146.20 million tons would

\* The 1952 taxes in grain equivalents are given as 13.2 per cent of the value of basic food crops and industrial crops and their total value as 3.38 billion yuan (ECMM, No. 100, September 23, 1957). This indicates a price of 175 yuan per metric ton of hulled rice, or wheat, or a combination value of rice and wheat.

[19]

give an estimate of 23.8 billion yuan.\* This figure is consistent with the valuation of 22.8 billion yuan presented in column 2, since the latter does not include some industrial crops such as ramie and native tobacco.

However, the volume estimate for 1952 is probably too low. On the basis of what is known about weather conditions in the years 1952 through 1955 and the probable effect of the serious floods in 1954, together with estimates of increases in fertilizer and irrigated land, production of basic food crops and industrial crops in 1955 is estimated to have been 5 per cent higher than in 1952. The official estimate indicates an increase of about 13 per cent, but, since it is probable that considerable improvement occurred in statistical coverage in the years from 1952 to 1954, this estimate of increase is believed to be based on an underestimate of the 1952 volume. The official volume figure in terms of "fine grain" for 1955 is accepted. (See Table 2, note †.) The actual volume of production of "fine grain" in 1952 is estimated to have been 157 million tons rather than the official volume figure of 146.2 million tons. Therefore, the estimate of the value of 1952

\* Price for 1953 and 1954 (based on eighteen price quotations) for paddy rice, weighted by province and estimated production for these provinces, is 134.3 yuan per metric ton. The provinces covered contribute about 70 per cent of rice output. The average price for wheat (based on twelve price quotations), weighted by wheat output in the provinces concerned, is 181.2 yuan per ton. The provinces covered contribute about 65 per cent of wheat output. Of total output of basic food crops and industrial crops, 35 per cent is estimated as representing conversions into wheat in North, Northeast, and Northwest China, and 65 per cent as representing conversions into unhulled rice. In 1955 polished rice averaged 72.12 per cent of the weight of paddy rice, and polished rice averaged 93.11 per cent of rough (or unhulled) rice. (Jen-min Jih-pao [People's Daily], Peiping, June 29, 1956.) Hulled rice is estimated as equivalent to 77.46 per cent of paddy rice by weight. The 1952 output is therefore estimated to be equivalent to 51.17 million tons of wheat and 122.68 million tons of paddy rice. The estimated value of 1952 output in 1953 and 1954 prices is therefore 25.75 billion yuan. State-farm procurement prices are reported as increasing by 8 per cent in 1953 over 1952, giving an estimated value of 1952 output in 1952 prices of 23.8 billion yuan.

Table 2

## VALUE OF OUTPUT IN MAJOR AGRICULTURAL SECTORS, 1952

(Comparison of Estimates Derived from Chinese Communist Data for Gross Value of Agricultural Production with Estimates Derived by Valuing Physical Production Figures at Estimated Farm Procurement Prices)

| Agricultural Output  | (1)<br>Chinese<br>Communist<br>Figures | (2)<br>Physical Production<br>at Farm<br>Procurement Prices * | (3)<br>Estimate<br>Used in<br>This Study † |
|--|--|---|--|
| Basic food crops<br>(including rice, wheat,<br>coarse grains, peas and<br>beans, soybeans and<br>potatoes) | 23.00 <sup>‡</sup>                     | 20.36<br>(basic food crops)                                   | 23.00                                      |
| Industrial crops<br>(cotton, oilseeds, jute,<br>tobacco, sugar, etc.)                                      | 2.60 <sup>‡</sup>                      | 2.47<br>(cotton, oilseeds, cured<br>tobacco, and jute)        | 2.60                                       |
| By-products of basic food<br>crops and industrial crops<br>(bran, chaff, stalks,<br>cottonseed, etc.)      | 4.10 <sup>‡</sup>                      |   | 4.10                                       |
| Other crops<br>(including vegetables,<br>fruits, fodder crops, tea,<br>and miscellaneous)                  | 2.70 <sup>‡</sup>                      | 2.30<br>(fruits, vegetables, and<br>tea)                      | 2.70                                       |
| Livestock and products,<br>silk, wool, etc.  | 6.09 <sup>§</sup>                      | 5.22<br>(meat, poultry, eggs,<br>silk, and wool)              | 6.09                                       |
| Forestry products, fishing,<br>hunting, and collecting   | 2.30 <sup>  </sup>                     | 1.04<br>(marine products and<br>forestry products)            | 2.30                                       |
| Elementary processing of<br>basic food crops and<br>slaughtering for farm<br>home consumption              | 2.10 <sup>  </sup>                     |   | 2.10                                       |
| Self-supplying handicraft<br>production  | 5.50 <sup>  </sup>                     |   | 6.00                                       |
| TOTAL OUTPUT FOR<br>AGRICULTURAL SECTOR  | 48.39 <sup>¶</sup>                     |   | 48.89                                      |

Table 2 (Concluded)

\* For the direct estimate of the value of physical production at farm prices, see Appendix.

† For the estimates of the value of physical production used in this study, see text.

‡ The value of total agricultural taxes in terms of the net value of agricultural production is 3.38 billion yuan, and this is given as 13.2 per cent of the total value of basic food crops and industry crops. (ECMM, No. 100, September 23, 1957.) This gives the total valuation placed on these crops as 25.6 billion yuan. In 1955 the same source gives the total value of 1955 output as equivalent to 164.85 million tons of "fine grain," or 28.9 billion yuan in terms of the prices used in the official valuation. Of the total value of agricultural production given in "The Statistical Tables," 67.7 per cent is from cultivation of plants (ECMM, No. 76, April 1, 1957, p. 30), or a value of 37.6 billion yuan. In 1955 output of basic food crops and industrial crops was about 88 per cent of the total output of all crops, exclusive of the value of chaff, bran, stalks, and other by-products; production expenses averaged 22 per cent of the value of all crops excluding by-products and averaged 20 per cent of the value of crops including by-products. (ECMM, No. 66, January 21, 1957, pp. 29-30.) These data yield estimates of the value of fruits, vegetables, and other crops in 1955 of 4.1 billion yuan and for chaff, bran, cottonseed, and other by-products of 4.6 billion yuan. On the basis of figures for sown acreage for fruits, vegetables, fodder crops, and miscellaneous, the valuation in official statistics is estimated to be 50 per cent higher in 1955 than in 1952. (See "The Statistical Tables" and figures for the proportion of total sown acreage for such crops in ECMM, No. 100, September 23, 1957, p. 28.) This gives an estimate in the official valuation of 2.7 billion yuan in 1952; and by-products are estimated as the same proportion of the value of basic food crops and industrial crops as in 1955, giving an estimate of 4.1 billion yuan in 1952.

§ In 1952, more than 80 per cent of all taxes was paid in the form of food crops, 10 per cent in the form of industrial crops, and less than 10 per cent in the form of cash. (People's China, No. 8, April 16, 1953, p. 17.) Assuming the same relative tax burden, about 90 per cent of the value of basic food crops and industrial crops can be estimated as the value of basic food crops in 1952, or 23.0 billion yuan, and 2.6 billion yuan as the value of industrial crops.

|| This figure is the residual from the other estimates given.

¶ According to data on farm supplementary subsidiary occupations, their total value in 1952 was 9.9 billion yuan. (Ching-chi Yen-chiu [Economic Research], Peiping, No. 5, October 1956, pp. 19-38.) Of this total, 7.5 billion yuan is the value of home processing of basic food crops and slaughtering and of self-supplying handicrafts. The remainder is for forestry, fishing, hunting, and collecting. In 1955 the value of elementary processing of farm produce for home consumption and preservation is given as 2.17 billion yuan. (ECMM, No. 76, April 1, 1957, p. 30.) Based on figures on the nonmarketed portion for basic food crops for 1952 and 1955, the value of farm home processing of basic food crops and slaughtering, using official production figures, is about 2.1 billion yuan, leaving 5.5 billion for self-supplying handicrafts.

\* Total value of agricultural production is given in "The Statistical Tables."

[22]

basic food and industrial crop production used in this study is 25.6 billion yuan, a figure which is the same as the official valuation but which involves an estimate of official overvaluation of the 1952 production of basic food crops and official understatement of the volume of production.

Although the valuations placed on chaff, bran, stalks, cottonseed, and so on probably reflect city selling prices in rural areas, these crops constitute costs of agricultural production, and any difference in valuation serves only to affect equally figures for production costs; it will not affect the estimates of income or net output of the agricultural sector. Therefore, the official estimate is used without adjustment. For three other groups, the official estimates are higher than the direct ones, which could reasonably be expected since they contain added components. The official valuation of production of vegetables, fruits, fodder crops, tea, and miscellaneous crops contrasts with a direct valuation which does not include estimates of fodder and miscellaneous crops. The official valuation for livestock production includes estimates for increases in livestock, for some animal by-products not directly valued, and even perhaps for the estimated value of some animal manure. The official estimate of the value of output in forestry, fishing, hunting, and collecting (wild berries, nuts, fruits, and vegetables) includes the estimated output of fresh-water fishing and other production not directly estimated. For each of these, therefore, the official estimate may be consistent with the lower direct estimate and was accepted.

The figures given for elementary processing of basic food crops and slaughtering for farm home consumption and for self-supplying handicrafts are admitted to "be based in most cases on estimation."<sup>1</sup> This

[23]

implies that they are either taken as a percentage of total farm income or as some ratio to the estimated value of basic food crops and livestock slaughtered by farm households and to the estimated value of industrial crops processed by farm households. The figures for 1955<sup>2</sup> were therefore reduced in the ratio of the average valuation placed on basic food crops and industrial crops in this study to the valuation used in the official estimate to give estimates in 1955 for elementary processing of 2.0 billion yuan and for self-supplying handicrafts of 6.1 billion yuan, in 1952 prices. The indexes for output of available basic food crops and meat for farm home processing and for self-supplying handicrafts (see below), when applied to these figures for 1955, give estimates for 1952 of 2.1 billion yuan for elementary processing and of 6.0 billion yuan for self-supplying handicrafts.

The total gross value of agricultural production in 1952 is therefore estimated as 48.9 billion yuan.

#### Gross Value of Farm Production, 1950-1957

The estimates of gross farm income for each category of agriculture production in years other than 1952 were derived in two steps. First the volume of production in 1952 prices was estimated by applying volume indexes linking 1952 to other years. (These indexes are explained below.) Then estimates of price changes were applied.

Official figures for the production of basic food crops and animal products were adjusted for probable overstatements in trend for 1950, 1951, and 1953-1954 resulting from changes in statistical coverage, and an index of output in 1952 prices was then computed from them. The index for the years 1950 through 1957 is as follows:

[24]

| Year | Index | Year | Index |
|------|-------|------|-------|
| 1950 | 89    | 1954 | 99    |
| 1951 | 93    | 1955 | 105   |
| 1952 | 100   | 1956 | 110   |
| 1953 | 101   | 1957 | 114   |

This index was applied to the estimated gross value of crops and animal products in 1952 of 38.5 billion yuan (see Table 2) to obtain estimates for other years.

The output value in 1952 prices of forestry, fishing, hunting, and collecting was taken from reported values for 1952 through 1955, and the index for output of basic food crops, industrial crops, and animal products was applied to the 1952 value to derive estimates for 1950 and 1951 and to the 1955 value to derive estimates for 1956 and 1957. The resulting index for the value of this type of output in 1952 prices is as follows:

| Year | Index | Year | Index |
|------|-------|------|-------|
| 1950 | 89    | 1954 | 109   |
| 1951 | 93    | 1955 | 130   |
| 1952 | 100   | 1956 | 136   |
| 1953 | 104   | 1957 | 141   |

This index was applied against the estimated gross value in 1952 of 2.3 billion yuan.

The estimate of the value of farm home processing of basic food crops and slaughtering is based on an index of basic food crops left after sales and taxes<sup>3</sup> and on an estimated total output of meat not marketed, based on estimated trends in total production and estimated retail sales of meat. This index of the volume of farm home processing is:

| Year | Index | Year | Index |
|------|-------|------|-------|
| 1950 | 97    | 1954 | 82    |
| 1951 | 96    | 1955 | 95    |
| 1952 | 100   | 1956 | 98    |
| 1953 | 98    | 1957 | 101   |

[25]

This index was applied against the estimated gross value in 1952 of 2.1 billion yuan. The estimate of the value of self-supplying handicrafts is based on an index by which half of output in 1955 is estimated to have consisted of processing industrial crops and livestock products and one half of processing of bamboo, timber, and other products procured and used in farm areas. For the processing of industrial crops and livestock products, an index based on cotton and oilseeds not procured by the state and the proportion of meat not sold was used; for the processing of other products, the index for the total value of forestry, fishing, hunting, and so on was used. The resulting index in 1952 prices for the value of self-supplying handicrafts is given below:

| Year | Index | Year | Index |
|------|-------|------|-------|
| 1950 | 80    | 1954 | 103   |
| 1951 | 89    | 1955 | 102   |
| 1952 | 100   | 1956 | 112   |
| 1953 | 105   | 1957 | 116   |

This was applied to the total 1952 gross value of self-supplying handicrafts of 6.0 billion yuan.

In this way, the gross value of agricultural production in 1952 prices was estimated. The estimates in constant 1952 prices were then converted to current prices on the basis of a price index given in Communist reports for farm sales of all agricultural products for the years from 1950 through 1957.<sup>4</sup> These data are:

| Year | Gross Value<br>Billion Yuan<br>(1952 Prices) | Price<br>Index | Gross Value<br>Billion Yuan<br>(Current Prices) |
|------|--|----------------|---|
| 1950 | 43.2   | 82.2           | 35.5  |
| 1951 | 45.3   | 98.4           | 44.6  |
| 1952 | 48.9   | 100.0          | 48.9  |
| 1953 | 49.7   | 110.1          | 54.7  |
| 1954 | 48.5   | 113.8          | 55.2  |

[ 26 ]

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|      |      |       |      |
|------|------|-------|------|
| 1955 | 51.6 | 113.2 | 58.4 |
| 1956 | 54.3 | 116.6 | 63.3 |
| 1957 | 56.2 | 120.9 | 67.9 |

These estimates in current prices, less imputed costs of production, plus imputed house rent and consumer services, give total sales by the agricultural sector to households and to the nonagricultural sector as they appear in Table II, line 5.

#### Farm Production Costs and Investment Purchases

No direct estimate of intrasector costs of current production of intrasector expenditures for investment is possible, but it is possible to estimate the combined total of intrasector expenditures for current production costs and for investment. It is also possible to estimate total investment expenditures. Furthermore, it is possible to determine the amount of total purchases from the nonagricultural sector and then to separate these into costs of current production and investment. This permits next an estimate of intrasector investment expenditures (as a residual from total investment) and then an estimate of intrasector costs of current production (as a residual from total current costs). Intrasector costs of current production were subtracted from the gross value of agricultural commodity production to arrive at a "net" sales figure which was used in preparing the sector accounts.

#### Purchases of "Production Materials" from the Nonagricultural Sector

Purchases by the agricultural sector from the nonagricultural sector on current and capital account are included in retail sales figures. Purchases of "production materials" (a term used here to refer to materials purchased for use in current production and for gross investment) can be estimated for 1953 through 1956 from an article on the rural market

[ 27 ]

giving data on agricultural loans together with the ratio of loans to such purchases. The proportion of purchases for various commodities is also given. These data are summarized in Table 3.

Agricultural loans outstanding at the end of 1952 were 438 million yuan.<sup>5</sup> The proportion of loans to total retail sales of agricultural production materials was probably tending to rise (see the trend shown in Table 3), and was probably less in 1952 than in 1953. It is estimated at 23 per cent in 1952. Total sales of production materials in 1952 are therefore estimated at 1.9 billion yuan. Retail sales of production materials in 1950 and 1951 are assumed to be the same ratio to total sales to the nonagricultural sector (see page 38 below) as in 1952, giving a total of 1.2 billion yuan for 1950 and 1.4 billion for 1951. In 1957 the same ratio to total sales to the nonagricultural sector is used as in 1956, yielding an estimate of 4.2 billion yuan.

Component purchases for 1952 were estimated as follows: An index of the value of commercial fertilizer and oil cake supplied by industry in relation to the figure for 1953 indicates that the value of fertilizer sold in 1952 was about 670 million yuan. In 1953 and 1954 the value of old-type farm implements was about 5.7 per cent of total individual handicraft output. Use of this percentage for 1952 indicates that such sales in 1952 were about 420 million yuan. Using the same percentages of total sales for insecticides and for miscellaneous items as in 1953 gives a total of 15 million and 30 million yuan, respectively. The residual for draft animals, large carts, and producer goods for subsidiary industry is therefore roughly 765 million yuan.

The portions of these purchases that are gross investment expenditures were estimated as follows. No figures for purchases of construction materials are given in Chinese data for 1953. Purchases of construction

[28]

Table 3  
FARM PURCHASES OF PRODUCTION MATERIALS  
1952 - 1956  
(Million Yuan)

| Line  | 1952  | 1953  | 1954  | 1955  | 1956  |
|---|-------|-------|-------|-------|-------|
| A Loans outstanding at the end of year  | 438   | 570   | 760   | 1,000 | 3,000 |
| B Loans outstanding as percentage of total retail sales of production materials | ...   | 25.0% | 26.1% | 32.3% | 81.4% |
| C Total retail sales of production materials                                    | 1,900 | 2,280 | 2,910 | 3,100 | 3,685 |
| D Of which:   |       |       |       |       |       |
| Fertilizer  | 670   | 866   | 986   | 1,107 | 1,223 |
| Insecticides  | 15    | 18    | 52    | 65    | 144   |
| Simple water conservancy farm tools   | ...   | ...   | 15    | 31    | 136   |
| Old-type farm tools   | 420   | 524   | 597   | 530   | 472   |
| Building construction materials   | ...   | ...   | 212   | 366   | 405   |
| Other (draft animals, large carts, producer goods for subsidiary industry)      | 765   | 837   | 681   | 722   | 840   |
| Commodities not estimated   | 30    | 35    | 367   | 279   | 465   |

Sources: For 1952, see text; for 1953-1956:

Line A - For 1953 and 1954, see Ching-chi Yen-chiu (Economic Research), Peiping, April 17, 1956, pp. 3-12. Rough figures for 1955 and 1956 are available in CB, No. 442, March 15, 1957.

Lines B and D - Are from an article on the rural market in Ching-chi Yen-chiu, No. 3, June 17, 1957, and percentages given for different types of commodities.

Line C - Derived from Lines A and B.

[29]

materials in 1954 and 1955 were large. These purchases are included in gross investment, since it is likely that simple materials for house repairs were furnished by farm supplementary handicrafts and that the 1954 and 1955 figures represent expenditures for major repair or new construction. The "Other" and "Residual" categories in Table 3 include expenditures both for investment and for raw materials. It is assumed that for each year of the period 1952-1955 the fraction of these categories that should be allocated to gross investment is equal to the ratio of purchases of simple farm tools for water conservancy, old-type farm tools, and building materials as given in Table 3 to these purchases plus those of fertilizer and insecticides. For 1950 and 1951, gross investment is assumed to constitute the same percentage of total cash purchases as in 1952. For 1957 the same percentage is used as for 1956. These procedures give estimates for sales by the nonagricultural sector to the agricultural sector on capital and current account, respectively, as follows (in billion yuan):

| Account | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 |
|---------|------|------|------|------|------|------|------|------|
| Capital | 0.5  | 0.5  | 0.7  | 0.8  | 1.3  | 1.4  | 1.6  | 1.8  |
| Current | 0.7  | 0.9  | 1.2  | 1.5  | 1.6  | 1.7  | 2.1  | 2.4  |

The purchases on current account appear in Table II, line 6, and those for purchases on capital account in Table VI, line 74.

#### Intrasector Production Costs and Investment Purchases

As has been noted above, estimates of agricultural intrasector production costs and investment purchases were derived by estimating total costs of production and total investment expenditures and then subtracting purchases from the nonagricultural sector on current and capital account.



[30]

1. Total Production Costs and Investment Purchases and Their Breakdown by Sectors, 1952

The Five Year Plan gives a figure of 6 billion yuan as the amount of peasant expenditures for increasing fixed assets after subtracting depreciation charges.<sup>6</sup> This estimate was made in mid-1955. Final figures for 1953 and 1954 for the total value of agricultural production and the target for 1955 and 1957 indicate that the five-year total for the gross value of agricultural production was expected to be about 273 billion yuan. Net additions to fixed assets by peasants was therefore expected to be 2.2 per cent of the gross value of agricultural output during the five-year period. In the absence of specific evidence on net investment in 1952, this percentage was applied to the official 1952 figure of 48.39 billion yuan for the gross value of agricultural production to secure an estimate of roughly 1.1 billion yuan in 1952 as net investment expenditures.

Chinese Communist figures on the "gross" value and "net" value of agricultural production in 1952 are summarized in Table 4. Production costs are shown as approximately 12.2 billion yuan. (Costs of production in Communist statistics include depreciation charges.)

The sum of 1952 production costs and net investment is identical with the sum of 1952 current agricultural production costs and gross investment expenditures. The Communist figure for the latter sum is therefore estimated as 13.3 billion yuan.

Sample studies of farm income and expenditures<sup>\*</sup> indicate that in 1952 expenditures for farm tools, for water conservation, and for purchase of draught animals were about 1.5 billion yuan. This figure is

<sup>\*</sup> These sample studies are for Shantung in 1951, Ching-chi Chou-pao (Economic Weekly), No. 8, February 1952; for a village in Chekiang in 1952, Ching-chi Chou-pao, No. 33, 1952; and for a village in Manchuria, Jen-min Jih-pao (People's Daily), Peiping, December 3, 1952.

[31]

Table 4

CHINESE COMMUNIST OFFICIAL FIGURES ON GROSS VALUE AND NET VALUE OF AGRICULTURAL PRODUCTION, 1952

|  | Gross Value * | Costs of Production      | Net Output               |
|--|---------------|--------------------------|--------------------------|
| Agricultural production and forestry, fishing, and collecting                        | 40.79         | 8.51 <sup>†</sup>        | 32.28 <sup>‡</sup>       |
| Elementary processing of basic food crops and slaughtering for farm home consumption | 2.10          | ... §                    | 2.10 <sup>§</sup>        |
| Self-supplying handicraft production   | 5.50          | 3.68 <sup>  </sup>       | 1.82 <sup>  </sup>       |
| <b>TOTAL AGRICULTURAL PRODUCTION</b>   | <b>48.39</b>  | <b>12.19<sup>¶</sup></b> | <b>36.20<sup>¶</sup></b> |

\* See Table 2.

<sup>†</sup> Residual from gross value figure and figure for net output.

<sup>‡</sup> As reported in Ts'ai-cheng (Public Finance), Peiping, No. 8, August 5, 1957, pp. 3-4.

<sup>§</sup> Elementary processing of basic food crops and slaughtering for farm home consumption is probably the imputed value for the processing and slaughtering, in which the value of basic food crops and home produced meat is included under agricultural production, and represents the additional value created in this processing. Therefore no costs of production are involved.

<sup>||</sup> These figures are the residuals from total costs and from total net output, respectively.

<sup>¶</sup> In 1952, 59.2 per cent of "national income," by Communist definition, was from agriculture and the official estimate of national income in 1952 was 61.1 billion yuan. (Ching-chi Yen-chiu [Economic Research], No. 6, December 17, 1957, pp. 1-11.) Total costs of production are derived by subtracting the figure for net output from total gross value of agricultural production.

taken as the value of gross investment, which leaves 11.8 billion yuan as the estimate in official figures for current costs of production. Of the gross investment, 1.1 billion yuan was estimated above as net investment; hence the depreciation charges were 0.4 billion yuan.

Since in this study the value of agricultural production and forestry,

[32]

fishing, and so on is estimated to be the same as that in official statistics, no adjustment needs to be made in the official figures for costs of production in this area. Of the costs for self-supplying handicraft production given in Table 4, 3.68 billion yuan, purchases from the non-agricultural sector are estimated as half the category for large carts and materials for subsidiary industry, or .4 billion yuan, leaving 3.28 billion yuan as agricultural materials out of agricultural production. This is equal to 60 per cent of the value of self-supplying handicraft production in the official figures. This percentage is used against the output of self-supplying handicrafts estimated in this study (6.0 billion yuan) to secure an estimate of 3.6 billion yuan.

Total current costs of production are therefore estimated as .32 billion yuan more than the official figure of 11.8 billion yuan, or 12.1 billion yuan.

The estimates derived above yield the following division of 1952 agricultural expenditures between current production costs and gross investment and of each between purchases from the agricultural sector and from the nonagricultural sector:

Agricultural Purchases in 1952  
(Billion Yuan)

|                             | Current<br>Production<br>Costs | Gross<br>Investment | Total |
|-----------------------------|--------------------------------|---------------------|-------|
| From agricultural sector    | 10.9                           | 0.8                 | 11.7  |
| From nonagricultural sector | 1.2                            | 0.7                 | 1.9   |
| TOTAL                       | 12.1                           | 1.5                 | 13.6  |

It is probable that a significant portion of these expenditures for current production and on capital account is in the form of cash but

[33]

does not enter market channels. It is therefore not included in official statistics for retail sales. The much larger portion represents farm household production and use that do not take the form of cash transactions.

2. Intrasector Production Costs and Investment Purchases, 1950-1957

Intrasector costs of production and investment expenditures are probably relatively stable in relation to farm production. Intrasector current costs of production for self-supplying handicrafts are estimated above as 3.6 billion yuan in 1952, or 60 per cent of gross output. The remaining intrasector costs of 7.3 billion yuan in 1952 constitute 17.9 per cent of the gross value of output for agriculture, forestry, fishing, and so on. These percentages are used to obtain the following estimated intrasector current costs of production:

| Year | Billion Yuan |
|------|--------------|
| 1950 | 7.7          |
| 1951 | 9.8          |
| 1952 | 10.9         |
| 1953 | 12.3         |
| 1954 | 12.5         |
| 1955 | 13.0         |
| 1956 | 14.2         |
| 1957 | 15.3         |

Imputed investment expenditures also probably form a relatively stable proportion of farm production. For example, cash expenditures for old-type farm implements in Table 3 are relatively constant after 1952. Therefore, imputed investment expenditures for 1950 through 1957 are estimated as the same ratio to the gross value of farm production as in 1952, yielding the figures which appear in Table II, line 3, as sales to farmers on capital account.

[34]

## Rent and Consumer Services

On the basis of studies of farm income during the pre-Communist period by Buck<sup>7</sup> and others, the value of farm housing services is estimated to be 5 per cent of net farm income, not including either peasant gross investment purchases or the imputed value of farm home food processing.

The value of direct consumer services furnished the farm population is small. A detailed study of rural family budgets in the pre-Communist period for a hsien in Shantung<sup>8</sup> showed less than 4 per cent of net farm income, other than peasant gross investment purchases and the imputed value of farm home food processing, as expenditures for consumer services. Of these expenditures, about half were purchases of commodities. In this study, therefore, total direct purchases of consumer services, excluding commodity purchases, are estimated to be 2 per cent of net farm income, excluding gross investment cash purchases and farm home food processing. Based on the ratio of farm consumption to cash purchases from the non-agricultural sector (see below, pages 37 and 38), one-third of these direct consumer expenditures is estimated to be purchased from the nonagricultural sector, leaving as the value of services to farm households 1.3 per cent of farm income not including gross investment or the imputed value of farm home food processing. Farm income not including either these categories or rent and consumer services is estimated as follows:

| Year | Billion Yuan |
|------|--------------|
| 1950 | 24.3         |
| 1951 | 30.7         |
| 1952 | 33.2         |
| 1953 | 36.9         |
| 1954 | 36.9         |
| 1955 | 39.0         |
| 1956 | 42.0         |
| 1957 | 44.7         |

This net income is estimated to be 93.7 per cent of net farm income

[35]

including the imputed value of rent and consumer services. The valuation placed on rent and direct consumer services furnished by the farm population is therefore estimated by multiplying the figures above by 6.3/93.7. These estimates appear in Table II (line 2) and also in the following paragraph.

## Derivation of Estimates of Total Sales

Estimates derived in this and preceding sections may be combined to yield estimates of total sales of goods and services by the agricultural sector, as shown in the following tabulation (in billion yuan):

|   | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 |
|---|------|------|------|------|------|------|------|------|
| Gross value of agricultural production of commodities | 35.5 | 44.6 | 48.9 | 54.7 | 55.2 | 58.4 | 63.3 | 67.9 |
| Less: intrasector production costs                    | 7.7  | 9.8  | 10.9 | 12.3 | 12.5 | 13.0 | 14.2 | 15.3 |
|   | 27.8 | 34.8 | 38.0 | 42.4 | 42.7 | 45.4 | 49.1 | 52.6 |
| Plus: house rent and consumer services                | 1.6  | 2.1  | 2.2  | 2.5  | 2.5  | 2.6  | 2.8  | 3.0  |
| TOTAL SALES   | 29.4 | 36.9 | 40.2 | 44.9 | 45.2 | 48.0 | 51.9 | 55.6 |

The totals arrived at are net of intrasector sales on current account.

They treat rental of farm homes and consumer services rendered by farmers as originating in the agricultural sector. The totals shown are presented in Table II, line 5.

## Sales to the Nonagricultural Sector

Two components of total sales have already been estimated: sales to agriculture on capital account, and house rent and consumer services.

[36]

To complete the sector account, it is necessary to break down the estimate into other components.

The value of total sales of farm products to the nonagricultural sector is given for 1951 through 1957 as follows:<sup>9</sup>

| Year | Billion Yuan |
|------|--------------|
| 1951 | 11.64        |
| 1952 | 15.61        |
| 1953 | 17.04        |
| 1954 | 18.06        |
| 1955 | 18.89        |
| 1956 | 19.55        |
| 1957 | 22.50        |

Although the 1957 figure is probably the planned figure, reports indicate that the state largely fulfilled its procurement plans.

The article giving these figures refers to these sales as "purchases" of farm products; this study treats these figures as the value in current prices of the "commercial value of agricultural products," a term which is defined as including tax collections in kind.<sup>10</sup> The commercial value of farm products so defined, as given in the article cited, would be equivalent in 1954 to 15.9 billion yuan in average 1952 prices. This is close enough to the value given for 1954 production of commercial commodities, 16.3 billion yuan<sup>11</sup> to justify this interpretation of the sales figures given. Therefore, although it is still open to question whether tax collections in kind are included in the figures given, it is more likely that the values given include all sales to the nonagricultural sector, including the value of tax collections in kind. Agricultural taxes collected in kind are treated in the accounts as sales to the government tax organs in the nonagricultural business sector. The value is imputed as paid to the farmer and immediately paid by him to the government as taxes.

[37]

In 1953, sales in rural areas are stated to have been 76 per cent higher than in 1950.<sup>12</sup> This figure presumably excludes tax payments in kind. Total taxes are estimated (see page 110) as 3.09 billion yuan in 1953 and 1.86 billion in 1950. The 1953 estimate leaves 13.95 billion yuan as an approximation of rural retail sales. Thus total sales excluding tax payments in 1950 are estimated as 7.93 billion yuan, and sales including taxes as roughly 9.8 billion yuan.

Therefore, total sales of farm products to the nonagricultural sector are estimated as follows (Table II, line 4):

| Year | Billion Yuan |
|------|--------------|
| 1950 | 9.8          |
| 1951 | 11.6         |
| 1952 | 15.6         |
| 1953 | 17.0         |
| 1954 | 18.1         |
| 1955 | 18.9         |
| 1956 | 19.6         |
| 1957 | 22.5         |

#### Sales to Households

##### Farm Home Consumption of Commodities

The estimate of sales of consumer goods to farm households includes both the imputed value of farm consumption of farm products which do not represent cash transactions and the intrasector cash transactions which do not appear in figures for retail sales.<sup>13</sup> These estimates for the period 1950-1957 were derived from the total sales by this sector by subtracting sales to the nonagricultural sector, intrasector sales on capital account, and the value of house rent and consumer services. The estimates computed in this manner are:

| Year | Billion Yuan |
|------|--------------|
| 1950 | 17.4         |
| 1951 | 22.5         |
| 1952 | 21.6         |
| 1953 | 24.5         |
| 1954 | 23.7         |
| 1955 | 25.5         |
| 1956 | 28.5         |
| 1957 | 29.0         |

Although farm-held stocks of grain may rise or fall depending on the success of the harvest, there is no basis on which to estimate increases or decreases in food inventories in farm areas. For this reason it is assumed that all production allocated to farm home consumption is consumed even though some of this production may in fact be saved for later time periods.

#### House Rent and Consumer Services

The value of these has been estimated above.

#### Notes for Chapter 3

1. CB, No. 434, January 15, 1957, p. 32.
2. ECMM, No. 76, April 1, 1957, p. 30.
3. Ching-chi Yen-chiu (Economic Research), Peiping, April 17, 1956.
4. ECMM, No. 104, October 22, 1957, pp. 23-24.
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8. Sidney D. Gamble, Ting Hsien, A North China Rural Community, Institute of Pacific Relations, New York, 1954.
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10. CB, No. 434, January 15, 1957, p. 32.
11. Ching-chi Yen-chiu, No. 5, October 1956.
12. Ta Kung Pao, Tientsin, August 7, 1955.
13. Chi-hua Ching-chi (Planned Economy), Peiping, No. 2, February 9, 1957.

## THE NONAGRICULTURAL BUSINESS SECTOR ACCOUNT

Table III presents estimates for this sector.

#### Sales by the Nonagricultural Business Sector

"The Statistical Tables"<sup>1</sup> present figures for total retail sales for 1950 and 1952 through 1955. Retail sales in 1951 were reported to have been 130 per cent of 1950.<sup>2</sup> The figures for 1956 and 1957 are presented in later publications.<sup>3, 4</sup> These figures for the eight years are:

| Year | Million Yuan |
|------|--------------|
| 1950 | 16,794       |
| 1951 | 21,830       |
| 1952 | 27,665       |
| 1953 | 35,041       |
| 1954 | 38,962       |
| 1955 | 40,002       |
| 1956 | 46,500       |
| 1957 | 47,000       |

There is reason to believe that the data are fairly accurate. Although some of the figures on which the totals are based must be only rough estimates of sales handled by peddlers and originating in individual handicrafts, a substantial portion of trade in the years 1952 through 1957 was controlled by state or cooperative trade organizations, and for these the data should be reasonably accurate. Also, the data

[40]

[41]

Table III. THE NONAGRICULTURAL BUSINESS SECTOR  
1950 - 1957  
(Billion Yuan)

Table III. THE NONAGRICULTURAL BUSINESS SECTOR  
1950 - 1957  
(Billion Yuan)

| Line  | 1950  | 1951  | 1952  | 1953  | 1954  | 1955  | 1956  | 1957  | Line |
|---|-------|-------|-------|-------|-------|-------|-------|-------|------|
| <u>Sales</u>  |       |       |       |       |       |       |       |       |      |
| To households   |       |       |       |       |       |       |       |       |      |
| 9 Goods   | 14.69 | 18.74 | 23.05 | 27.68 | 30.77 | 32.78 | 38.49 | 39.44 | 9    |
| 10 House rent   | 1.33  | 1.92  | 2.09  | 2.73  | 3.22  | 3.46  | 4.04  | 4.38  | 10   |
| 11 Consumer services  | 1.23  | 1.59  | 1.83  | 2.32  | 2.88  | 3.16  | 3.66  | 4.10  | 11   |
| To agricultural sector  |       |       |       |       |       |       |       |       |      |
| 12 For production   | .70   | .90   | 1.20  | 1.50  | 1.60  | 1.70  | 2.10  | 2.40  | 12   |
| 13 On capital account   | .50   | .50   | .70   | .80   | 1.30  | 1.40  | 1.60  | 1.80  | 13   |
| 14 To government  | 3.20  | 5.55  | 4.78  | 6.65  | 6.79  | 6.86  | 7.30  | 6.59  | 14   |
| 15 To abroad  | 2.27  | 2.54  | 2.82  | 3.58  | 4.12  | 5.00  | 5.62  | 5.35  | 15   |
| To nonagricultural business enterprises and government on capital account |       |       |       |       |       |       |       |       |      |
| 16 State enterprises  | 1.29  | 2.32  | 5.58  | 8.75  | 10.76 | 10.63 | 15.97 | 14.44 | 16   |
| 17 Nonstate business enterprises  | .40   | .50   | .60   | .70   | .70   | .70   | .50   | .50   | 17   |
| 18 Increase in inventories  | 1.29  | 2.88  | 2.41  | 2.31  | 2.17  | 1.22  | -2.25 | 5.00  | 18   |
| 19 TOTAL SALES  | 26.90 | 37.44 | 45.06 | 57.02 | 64.31 | 66.91 | 77.03 | 84.00 | 19   |
| <u>Purchases</u>  |       |       |       |       |       |       |       |       |      |
| 20 From agriculture   | 9.80  | 11.60 | 15.60 | 17.00 | 18.10 | 18.90 | 19.60 | 22.50 | 20   |
| 21 From abroad  | 2.12  | 3.50  | 3.74  | 4.59  | 4.43  | 6.08  | 5.30  | 4.84  | 21   |
| 22 From government—sales of labor camps                                   | .10   | .24   | .24   | .33   | .21   | .17   | .17   | .09   | 22   |
| <u>Charges against nonagricultural gross product</u>                      |       |       |       |       |       |       |       |       |      |
| 23 Compensation of employees  | 2.76  | 5.74  | 7.51  | 9.67  | 10.28 | 10.90 | 14.68 | 16.51 | 23   |
| 24 Rental income  | 1.13  | 1.63  | 1.77  | 2.32  | 2.73  | 2.94  | 3.43  | 3.72  | 24   |
| 25 Consumer services  | 1.15  | 1.44  | 1.63  | 2.07  | 2.61  | 2.87  | 3.28  | 3.69  | 25   |
| 26 Nonstate business enterprises  | 3.57  | 6.78  | 7.49  | 9.76  | 9.43  | 8.42  | 7.45  | 7.08  | 26   |
| State enterprises   |       |       |       |       |       |       |       |       |      |
| 27 Taxes  | .14   | 1.00  | .86   | 2.09  | 2.15  | 2.59  | 2.71  | 2.90  | 27   |
| 28 Profits, depreciation, and major repairs                               | 1.19  | 3.39  | 6.11  | 8.12  | 10.54 | 11.86 | 14.27 | 15.21 | 28   |
| 29 Gain or loss from government resales of tax collections in kind        |       |       | -.11  | -.33  | -.26  | -.22  | -.32  | -.31  | 29   |
| 30 Indirect taxes   | 2.22  | 3.48  | 4.47  | 5.53  | 6.14  | 6.15  | 7.44  | 7.59  | 30   |
| 31 Discrepancy  | +2.45 | -1.36 | -4.25 | -4.13 | -2.05 | -3.75 | -.98  | +.18  | 31   |
| 32 TOTAL PURCHASES AND CHARGES  | 26.90 | 37.44 | 45.06 | 57.02 | 64.31 | 66.91 | 77.03 | 84.00 | 32   |

Table III (Concluded)

Sources (lines are numbered consecutively in Tables II through VI):  
 Lines 9-11, see text. Lines 23-25, see text.  
 Line 12 = line 6. Line 27 = line 54.  
 Line 13, see text, page 29. Line 28, see text.  
 Line 14 = line 65. Line 29 = line 58.  
 Line 15-18, see text. Line 30 = line 55.  
 Line 19 = sum of lines 9-18. Line 31 = sum of lines 9-18 less sum of  
 Line 20 = line 4. Lines 20-30.  
 Line 21, see text. Line 32 = line 20.  
 Line 22 = line 57.

are necessarily related to the flow of cash payments through the state banking system and to production figures. The retail sales figure for 1952 has been checked against unit sales of the most important consumer commodities given in the Five Year Plan,<sup>5</sup> and the comparison tends to justify the use of the aggregate retail sales figure as basic in the construction of the Nonagricultural and Household Accounts.

Communist definitions specify that the retail sales figure includes all final sales of consumer goods and sales to businesses and government enterprises for their own use. The estimates of total sales of goods to the household sector and to farmers for production were derived from these figures by several adjustments.

#### Sales to Households

##### 1. Sales of Goods to Households (line 9)

The estimates of sales of goods to households were derived by subtracting from the data for aggregate retail sales the following: estimates of sales to government and business enterprises, to the agricultural sector, and of sales of materials for house repairs.

a. Subtraction of government and business purchases. The ratio of purchases (included in retail sales) by business and government enter-

prises for their own use to total sales is said to be "not very large."<sup>6</sup>

The context of this and other discussions of retail sales makes it seem probable that military purchases of grain and other goods furnished in kind to the military forces are included in the retail sales figures. Other business and government expenditures included are, first, administrative expenses for fuel, stationery, and the like and, second, certain purchases for social, cultural, and educational purposes such as publications and medicines.

Total government and business purchases included under retail sales for the period 1952-1957 were estimated as follows. An index for commodity sales to all inhabitants is given for 1950 through 1954,<sup>7</sup> and such sales in 1956 are given as 268 per cent of 1950.<sup>8</sup> Total rural sales in 1952 are given as 15.42 billion yuan,<sup>9</sup> and the stated increases in such sales<sup>10</sup> yield an estimate of 25.5 billion yuan for rural sales in 1956. Wage payments of 1.1 billion yuan to new workers in 1956 are stated to equal 6.9 per cent of the 1956 "purchasing power" (a term used as synonymous to commodity sales) of urban areas.<sup>11</sup> On the basis of this statement, commodity sales to urban households in 1956 were 15.9 billion yuan. The index referred to above gives estimates of sales to inhabitants for 1950 through 1954. The previously referred to 1955 index for sales to rural inhabitants gives a total of 22.1 billion yuan. The average increase in money wages in 1956 for all employees except unorganized handicraft workers was 14 per cent,<sup>12</sup> and this increase was applied to average income per urban inhabitant. From total "urban purchasing power" in 1956, 1.1 billion yuan was subtracted for workers added, and the remaining total of 14.8 billion yuan was divided by 1.14 to obtain an estimate for "urban purchasing power" in 1955 of 13 billion yuan. The figures for total sales to all inhabitants for 1950 through 1956 are:

[ 44 ]

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | 15.4                |
| 1951        | 19.3                |
| 1952        | 24.1                |
| 1953        | 29.0                |
| 1954        | 32.9                |
| 1955        | 35.1                |
| 1956        | 41.4                |

Subtracting commodity sales to persons from total retail sales, total retail sales to government and business enterprises are estimated as (in billion yuan):

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | 1.4                 |
| 1951        | 2.5                 |
| 1952        | 3.6                 |
| 1953        | 6.0                 |
| 1954        | 6.1                 |
| 1955        | 4.9                 |
| 1956        | 5.1                 |

A reduction of 0.98 billion in these sales was planned for 1957, giving a target for 1957 of 4.1 billion yuan.<sup>13</sup>

These figures for total government and business purchases include the value of imputed wages to military forces and labor camp personnel and probably cash wages for military personnel. Their value, however, should be included in sales to households. Therefore, that proportion of the total wages of military and labor camp personnel in each year used for commodity consumption is subtracted from the figures given above. (See discussion of rental and consumer services and Table V, lines 60, and 63.) The estimates of government and business purchases excluding such expenditures, which will be subtracted from retail sales, are:

[ 45 ]

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | 0.70                |
| 1951        | 1.40                |
| 1952        | 2.40                |
| 1953        | 4.65                |
| 1954        | 4.80                |
| 1955        | 3.60                |
| 1956        | 3.70                |
| 1957        | 2.70                |

b. Subtraction of sales to the agricultural sector. Total agricultural purchases from the nonagricultural sector on current and capital accounts have been estimated above as follows (see page 29):

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | 1.20                |
| 1951        | 1.40                |
| 1952        | 1.90                |
| 1953        | 2.30                |
| 1954        | 2.90                |
| 1955        | 3.10                |
| 1956        | 3.70                |
| 1957        | 4.20                |

c. Subtraction of materials for house repairs. It is probable that construction materials purchased for repairs are included in retail sales figures. These purchases, estimated in Section 2 immediately below, are:

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | .20                 |
| 1951        | .29                 |
| 1952        | .32                 |
| 1953        | .41                 |
| 1954        | .49                 |
| 1955        | .52                 |
| 1956        | .61                 |
| 1957        | .66                 |

d. Total retail sales to households (line 9). The figures as they



[ 46 ]

appear in Table II, line 9, are the retail sales figure less (1) business and government purchases, (2) sales to the agricultural sector on current and capital accounts, and (3) the value of materials for house repairs.

2. Sales of Rental Services and Construction Materials as a Component to Nonagricultural Households (line 10)

House rent is estimated as a proportion of total consumer goods purchases. Two fairly complete reports on income and expenditure patterns were published to inform overseas Chinese approximately how much they need to remit to dependents on the mainland for maintaining a rich, middle, or poor standard of living. Monthly living expenses for a family of five persons in Canton and for a family of six persons (three adults) in Foochow are given in the reports.<sup>14</sup> Per capita expenditures may be derived from these reports. An average per capita expenditure was obtained for the entire country by adjusting for regional variations in costs of living (presented in official figures) and employing a crude distribution of incomes between rich, middle, and poor. The derived percentage of consumer expenditures for rent was 16.5 per cent of the estimated household expenditures for consumer goods.

On the basis of similar relationships in other countries, the value of purchases of construction materials for repairs is estimated to be roughly 15 per cent of expenditures for house rent. It is therefore  $15 \times .165$ , or 2.5 per cent, of expenditures by nonagricultural households for consumer goods. The sum of the two expenditures (which equals 102.5 per cent of expenditures for consumer goods) equals retail sales minus (1) sales to government and business enterprises (estimated above) and (2) retail sales to farmers for both consumption and business uses.

Only a rough estimate of retail sales to farmers is possible, but, since an error in the estimate will not cause a large absolute error in the estimates of purchases of construction materials for repairs and the value of rental services, such an estimate is acceptable for the present purpose.

[ 47 ]

It is sufficient to estimate retail sales to farmers by subtracting from total farm sales to the nonagricultural sector (Table II, line 4) (1) budgeted and nonbudgeted agricultural taxes, bond payments, and nontax receipts (see pages 108-110), (2) purchases of consumer services (see page 50 below), and (3) increases in rural bank deposits, and adding the increase in agricultural loans by the People's Bank and Credit Cooperatives. Total retail sales to farmers are therefore estimated to have been:

| Year | Million Yuan |
|------|--------------|
| 1950 | 7,830        |
| 1951 | 8,490        |
| 1952 | 12,270       |
| 1953 | 13,430       |
| 1954 | 14,170       |
| 1955 | 14,888       |
| 1956 | 17,730       |
| 1957 | 17,100       |

These figures were derived as follows:

|   | 1950  | 1951   | 1952   | 1953   | 1954   | 1955   | 1956   | 1957   |
|---|-------|--------|--------|--------|--------|--------|--------|--------|
| Total farm sales to nonagricultural sector <sup>a</sup>             | 9,800 | 11,600 | 15,600 | 17,000 | 18,100 | 18,900 | 19,600 | 22,500 |
| Less: Agricultural taxes <sup>b</sup>                               | 1,860 | 2,870  | 3,160  | 3,090  | 3,490  | 3,470  | 3,470  | 3,710  |
| Less: Miscellaneous nontax payments and bond purchases <sup>c</sup> | 22    | 138    | 107    | 215    | 214    | 320    | 241    | 301    |
| Less: Cash purchases of consumer services <sup>d</sup>              | 160   | 170    | 250    | 280    | 290    | 310    | 320    | 370    |
| Less: Increases in rural bank deposits and credit cooperative funds | 5     | 57     | 45     | 129    | 228    | 333    | 567    | 1,000  |
| Plus: Increase in agricultural loans <sup>e</sup>                   | 80    | 126    | 232    | 147    | 294    | 421    | 2,723  | - 23   |
| Equal: Retail sales to farmers                                      | 7,833 | 8,491  | 12,270 | 13,433 | 14,172 | 14,888 | 17,725 | 17,096 |

[ 48 ]

\* See Table II, line 4.

† See page 90.

‡ See Table II, pages 108-109.

§ See page 50.

‡ Total rural bank deposits are given for 1952 and 1956 (NCNA, May 5, 1957); for 1953-1955 including credit cooperative funds deposited in the state bank in 1954 and 1955 (Nung-ts'un Chin-jung [Rural Finance], No. 12, June 29, 1957, pp. 13-15). The source cited for 1953 and 1954 savings deposits gives the figures for credit cooperative funds transferred to the state bank for 1954-1956, and no such transfers probably took place in 1953. Total credit funds and share capital are given for the years 1953-1956 (ibid., No. 11, June 14, 1957, pp. 8-9), with credit cooperatives not organized in this way before 1953. From the total credit funds and share capital are subtracted the amounts transferred to the bank as deposits to secure estimates of total share capital and retained funds. In 1957 total rural savings including credit cooperative funds and share capital increased by 1 billion yuan (NCNA, December 28, 1957). For 1950 and 1951, the same proportion of total bank deposits is used as the ratio of rural bank deposits in 1952 to total bank deposits.

§ Agricultural loans from the People's Bank at the end of the year for 1950 and 1951 are from the source giving the figures for 1952-1954 in Table 3. The figures for 1955 and 1956 are given in this table. In addition, the loan balance for credit cooperatives at the end of each year is given for 1953-1956 (Nung-ts'un Chin-jung, No. 11, June 14, 1957, pp. 13-15). At the end of 1957, total loans, including those for credit cooperatives, are given as 4,000 million yuan (NCNA, February 12, 1958).

Rental value and purchases of construction materials may then be estimated as follows (in billion yuan):

|   | 1950   | 1951   | 1952   | 1953   | 1954   | 1955   | 1956   | 1957   |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| A Total retail sales  | 16,794 | 21,830 | 27,665 | 35,041 | 38,962 | 40,002 | 46,500 | 47,000 |
| B Less: Sales to government and business enterprises  | 700    | 1,400  | 2,400  | 4,650  | 4,800  | 3,600  | 3,700  | 2,700  |
| C Less: Retail sales to farmers   | 7,830  | 8,490  | 12,270 | 13,430 | 14,170 | 14,890 | 17,730 | 17,100 |
| D Equal: Nonagricultural household purchases of consumer goods plus materials for house repairs | 8,264  | 11,940 | 12,995 | 16,961 | 19,992 | 21,512 | 25,070 | 27,200 |

[ 49 ]

|  | 1950  | 1951   | 1952   | 1953   | 1954   | 1955   | 1956   | 1957   |
|--|-------|--------|--------|--------|--------|--------|--------|--------|
| Of which:                                  |       |        |        |        |        |        |        |        |
| E Purchases of consumer goods              | 8,060 | 11,650 | 12,680 | 16,550 | 19,500 | 20,990 | 24,460 | 26,540 |
| F Purchases of materials for house repairs | 200   | 290    | 315    | 410    | 490    | 520    | 610    | 660    |
| Addendum:                                  |       |        |        |        |        |        |        |        |
| G Value of house rentals (line 10)         | 1,330 | 1,920  | 2,090  | 2,730  | 3,220  | 3,460  | 4,040  | 4,380  |

### 3. Sales of Consumer Services by Nonagricultural Occupations

(line 11)

From the sample studies of consumer expenditures referred to above, it is estimated that nonagricultural purchases of consumer services not included in the retail sales total are about 14.5 per cent of total purchases. For the purposes of this study they were assumed to be 14 per cent of the nonagricultural purchases of consumer goods and materials for house repairs (see above, page 48). Purchases of such consumer services by the nonagricultural population are estimated, therefore, as:

| Year | Million Yuan |
|------|--------------|
| 1950 | 1,160        |
| 1951 | 1,670        |
| 1952 | 1,820        |
| 1953 | 2,370        |
| 1954 | 2,800        |
| 1955 | 3,010        |
| 1956 | 3,510        |
| 1957 | 3,810        |

Since the sample expenditures used include educational and medical fees, which are included under government nontax receipts, these payments, as given in Table V (line 56), are subtracted to secure the estimated value of purchases from nonagricultural enterprises.

[ 50 ]

Estimated purchases of consumer services from the nonagricultural population by farmers must be added. As indicated on page 34, 0.7 per cent of net farm income in 1952, excluding gross investment expenditure and the value of farm home food processing and including the imputed value of rent and consumer services, is estimated for such farm cash purchases. This percentage equals about 250 million yuan in 1952. In other years, these purchases are assumed to be the same ratio as in 1952 to farm cash sales to the nonagricultural population less budget taxes, nontax receipts, and bond purchases. The resulting estimates are:

| Year | Million Yuan |
|------|--------------|
| 1950 | 160          |
| 1951 | 170          |
| 1952 | 250          |
| 1953 | 280          |
| 1954 | 290          |
| 1955 | 310          |
| 1956 | 320          |
| 1957 | 370          |

Total sales of consumer services by nonagricultural occupations are therefore estimated as follows (line 11):

| Year | Billion Yuan |
|------|--------------|
| 1950 | 1.23         |
| 1951 | 1.59         |
| 1952 | 1.83         |
| 1953 | 2.32         |
| 1954 | 2.88         |
| 1955 | 3.16         |
| 1956 | 3.66         |
| 1957 | 4.10         |

#### Sales to the Agricultural Sector (lines 12 and 13)

Sales to the agricultural sector on current and capital accounts are estimated on page 29 above.

[ 51 ]

#### Sales to Government (line 14)

Sales to the government sector are estimated on page 123 below.

#### Sales Abroad

Total foreign trade (exports plus imports) in 1954 is given as 8.487 billion yuan.<sup>15</sup> An index of total imports and exports is given<sup>16</sup> which, using the 1954 figure as a base, indicates the following value of foreign trade in other years:

| Year | Million Yuan |
|------|--------------|
| 1950 | 4,160        |
| 1951 | 5,950        |
| 1952 | 6,490        |
| 1953 | 8,110        |
| 1954 | 8,487        |
| 1955 | 11,020       |

Of this total, exports were as follows:<sup>17</sup>

| Year | Million Yuan |
|------|--------------|
| 1950 | 2,040        |
| 1951 | 2,450        |
| 1952 | 2,750        |
| 1953 | 3,520        |
| 1954 | 4,060        |
| 1955 | 4,940        |

Final figures for 1956 give exports as 5,568 million yuan and imports as 5,297 million; the 1957 planned quotas were for exports of 5,200 million and for imports of 4,755 million yuan.<sup>18</sup> The over-all trade figure in 1957 was actually 10,130 million yuan,<sup>19</sup> and, in the absence of final figures for exports and imports, exports are estimated to have been 5,290 million yuan and imports to have been 4,840 million yuan. Remittances from overseas are reported in millions of US dollars as:<sup>20</sup>

[52]

| <u>Year</u> | <u>Million Dollars</u> |
|-------------|------------------------|
| 1950        | 60                     |
| 1951        | 30                     |
| 1952        | 20                     |
| 1953        | 12                     |

The 1953 figure is also used for 1954 through 1957. On the basis of prewar figures for gold production,<sup>21</sup> gold production for 1950 through 1957 is roughly estimated at 10 million US dollars a year. Converted at the exchange rate for each year based on the cross rate with the Hong Kong dollar,<sup>22</sup> such additional "sales abroad" are:

| <u>Year</u> | <u>Million Yuan</u> |
|-------------|---------------------|
| 1950        | 225                 |
| 1951        | 90                  |
| 1952        | 65                  |
| 1953        | 55                  |
| 1954        | 55                  |
| 1955        | 55                  |
| 1956        | 55                  |
| 1957        | 55                  |

Total sales abroad are therefore estimated as follows (line 15):

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | 2.27                |
| 1951        | 2.54                |
| 1952        | 2.82                |
| 1953        | 3.58                |
| 1954        | 4.12                |
| 1955        | 5.00                |
| 1956        | 5.62                |
| 1957        | 5.35                |

#### Sales to Business and Government on Capital Account

##### 1. State Investment (line 16)

The term "state investment" as used in this study includes gross investment purchases by state enterprises and government organs, excluding

[53]

the military establishment. Any military expenditures for investment purposes included in the budget figures for military expenditures are included under government purchases on current account. State investment expenditures paid for out of nonbudgeted funds are estimated to be negligible except for major repair expenditures, which are estimated to be paid for entirely out of allocations for the purpose by state enterprises. These of course are outside of the budget. Budgeted investment expenditures for nonstate enterprises are estimated to be negligible.

To understand the derivation of the estimates for investment expenditures, it is necessary to understand the relationships among three concepts: investment expenditures, used in this study in the usual economic definition; "economic construction expenditures," as used in the Chinese budget; and "expenditures for completed capital construction," as used in other Chinese statements.

Economic construction expenditures as shown in the Chinese budget include all budget expenditures for economic departments. The largest portion of these is for "capital construction" or investment. These are indicated separately in budget data. However, budget grants for working capital include funds not only for inventories of construction enterprises but also for cash reserves and other purposes.\* Furthermore, economic construction expenditures include budget grants for the trial manufacture of new products, and a small amount for operating expenses of ministries or enterprises which do not have their own accounting system and whose total receipts and expenditures are included in the budget. Only in agriculture do the "miscellaneous expenditures"

\* Budget data are used to estimate changes in inventories in construction and in installation of machinery and equipment. A considerable portion of working capital for inventories of operating enterprises is financed by the banking system; hence the budget is not used as the basis for estimating these.

[54]

included within "economic construction expenditures" seem to be investment expenditures. Some budget expenditures for "economic construction" must therefore be excluded from the estimates of investment expenditures.

Budget data on capital construction expenditures include all such expenditures in the year concerned. However, they do not include the miscellaneous agricultural investment expenditures referred to above. Furthermore, some expenditures included in the budget within social, cultural, and educational expenditures are for investment and not for current government purchases (see page 122). To estimate these two components of investment it is necessary to use data on "completed capital construction," which differ from budget data. Construction enterprises are advanced funds before the actual start of construction for the purchase of construction materials and for paying wages. These funds are included in the data for "completed capital construction" only in the year in which some structure, subproject, or installation is formally termed "completed." It is not clear at what precise stage of construction, parts of a project are placed in this category, but it is known that such "completions" are at lesser stages of completion than when a project is ready to begin operation. Owing to this practice, some expenditures shown in the figures for completions for a given year may actually have been included in budget expenditures in the previous year. Thus there may be some error in the allocation by years of the expenditures mentioned in this paragraph. Any such error is believed to be small.

Since the term "expenditures for completed capital construction" refers to expenditures as indicated above, it includes only the progress of construction and installation and thus excludes various expenditures

[55]

which seem to be included in the budget data for capital construction expenditures, notably, expenditures for preliminary preparations for construction, the stockpiling of construction materials and equipment, investment in operating inventories, general geological prospecting, and military land reclamation. These expenditures have been included in gross investment in this study.

Of these various differences between budget expenditures for capital construction and expenditures for completed capital construction shown in other sources, the largest, quantitatively, is that relating to inventories, including stocks of materials and equipment. In years when construction enterprises are adding to inventories, "completed" investment for these enterprises is less than budget expenditures, whereas in 1956, when inventories were probably reduced, "completed" investment may have been somewhat greater than budget expenditures for these enterprises.

Budget expenditures for capital construction are given as:<sup>23</sup>

| Year | Million Yuan |
|------|--------------|
| 1952 | 5,013        |
| 1953 | 8,145        |
| 1954 | 9,592        |
| 1955 | 9,517        |

For 1950 through 1952, total budgeted capital construction expenditures are reported to have been 22 per cent of total budget expenditures,<sup>24</sup> or 7.81 billion yuan, of which 2.80 billion yuan were spent in 1950 and 1951. This is 53.4 per cent of total economic construction expenditures for these two years.<sup>25</sup> If it is assumed that the ratio of capital construction expenditures to total budgeted expenditures was the same in 1950 as in 1951, the resulting estimates for capital construction expenditures are 925 million yuan in 1950 and 1,875 million yuan in 1951. The source

[ 56 ]

cited above (note 23) gives the planned figure for capital construction expenditures in 1956 as 14,874 million yuan, which equals 92.6 per cent of planned economic construction expenditures. When applied to the final figures for economic construction expenditures in 1956,<sup>26</sup> this percentage permits a rough estimate of budgeted expenditures for capital construction of 14.7 billion yuan in 1956. The estimate for total budget appropriations for capital construction in 1957 was derived as follows. Total expenditures for economic construction and social, cultural, and educational expenditures are given in the budget as 19,600 million yuan,<sup>27</sup> and the data indicate that of these total expenditures 1,040 million yuan were budget grants for working capital and 5,552 million yuan were operating expenses. These figures furnish an estimate for capital construction expenditures in 1957 of 13.0 billion yuan.

As has been indicated, these budget expenditures probably include expenditures for "completed capital construction," for general geological prospecting, military land reclamation, stockpiling of materials and equipment, inventory requirements of construction activities, and cash reserves. Additions to cash reserves need to be excluded. According to the First Five Year Plan, 3.2 per cent of total capital construction expenditures were to be for cash reserves; thus, to estimate gross investment expenditures, the figures given above were reduced by this percentage.

The types of expenditures referred to above are defined in Communist terminology as "basic construction." They exclude expenditures for the major overhaul of equipment and agricultural expenditures, such as dike repairs, both of which are included within gross investment in this study. Nonbudgeted funds allocated for major repairs are estimated

[ 57 ]

on page 92 below. In the period of restoration from 1950 to 1952, it is probable that all such funds were actually expended. At the end of 1955, however, unexpended funds were 42 per cent of major repair expenditures in that year.<sup>28</sup> Assuming a constant rate of accumulation of unexpended funds in the period 1953-1955, unexpended funds in each year were 16.8 per cent of expended funds, or 14.4 per cent of total funds. This percentage is used for the years 1953-1957. Major repair expenditures are therefore estimated to be:

| Year | Million Yuan |
|------|--------------|
| 1950 | 320          |
| 1951 | 340          |
| 1952 | 380          |
| 1953 | 385          |
| 1954 | 495          |
| 1955 | 575          |
| 1956 | 720          |
| 1957 | 845          |

The capital construction expenditures estimated above include agriculture, but, as has been indicated, they do not include certain expenditures in agriculture which ought to be included in gross investment. Total economic construction expenditures for agriculture, forestry, and water conservation are given in budget data for 1950 through 1955,<sup>29</sup> the final 1956 budget,<sup>30</sup> and the preliminary final 1957 budget.<sup>31</sup> The difference between economic construction expenditures in agriculture, forestry, and water conservation and estimated budget capital construction expenditures in these fields is therefore added to the figures derived above. Expenditures for completed capital construction for agriculture, forestry, and water conservation for 1952 through 1955 are given in "The Statistical Tables".<sup>32</sup>

| <u>Year</u> | <u>Million Yuan</u> |
|-------------|---------------------|
| 1952        | 517                 |
| 1953        | 652                 |
| 1954        | 363                 |
| 1955        | 601                 |

Such expenditures were 1,160 million in 1956 and were planned to be 970 million in 1957.<sup>33</sup> It is estimated that capital construction expenditures were the same proportion of budgeted economic construction expenditures in 1950 and 1951 as in 1952, and capital construction expenditures in 1957 are estimated to have been the same proportion of total expenditures as in the planned budget for 1957.

These figures from "The Statistical Tables" for completed capital construction in agriculture, forestry, and water conservation are thought to be virtually identical with budget expenditures for capital construction in these fields, except that the budget figures include expenditures for military land reclamation. On the basis of the First Five Year Plan, military land reclamation is estimated to equal 9.2 per cent of completed capital construction for agriculture, forestry, and water conservation. The figures given in the preceding paragraph were therefore increased by this percentage.

Subtracting these estimates of capital construction expenditures from budget figures for economic construction for agriculture, forestry, and water conservation, the following estimates are made for related gross investment expenditures for agriculture, water conservancy, and forestry:

| <u>Year</u> | <u>Million Yuan</u> |
|-------------|---------------------|
| 1950        | 77                  |
| 1951        | 166                 |
| 1952        | 350                 |
| 1953        | 479                 |
| 1954        | 979                 |
| 1955        | 842                 |
| 1956        | 1,017               |
| 1957        | 1,006               |

Total state gross investment expenditures, then, are estimated to equal the sum of budget expenditures for capital construction less 3.2 per cent for cash reserves, plus major repair expenditures and miscellaneous gross investment budget expenditures for agriculture, water conservancy, and forestry. The estimates are (line 16):

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | 1.29                |
| 1951        | 2.32                |
| 1952        | 5.58                |
| 1953        | 8.75                |
| 1954        | 10.76               |
| 1955        | 10.63               |
| 1956        | 15.97               |
| 1957        | 14.44               |

## 2. Nonstate Investment (line 17)

The only data for nonstate investment in the period 1950-1955 are for the total increase in fixed assets of nonstate enterprise industrial enterprises including individual handicrafts, given for 1950 through 1952 as 0.67 billion yuan and for 1953 through 1955 as 1.09 billion yuan.<sup>34</sup> Approximations of total nonstate investment in these years were made on two assumptions: (1) that the ratio of nonstate industrial investment to the gross value of nonstate enterprise industrial production remained constant for the three years of each period; and (2) that the ratio of additions to fixed assets of nonstate industrial enterprises to increases in fixed assets of all nonstate enterprises (industrial, commercial, and other sectors) also remained constant for the three years of each period.

Applying the first assumption, additions to fixed assets of nonstate industrial enterprises and individual handicraftsmen for the years 1950-1955 are:

[ 60 ]

| Year | Million Yuan |
|------|--------------|
| 1950 | 170          |
| 1951 | 230          |
| 1952 | 270          |
| 1953 | 360          |
| 1954 | 370          |
| 1955 | 360          |

The gross value of industrial fixed assets in 1949 was 52.6 per cent of total fixed assets; in 1952, 53.4 per cent of total fixed assets; and in 1955, 56.9 per cent of total fixed assets.<sup>35</sup> The total gross value of industrial fixed assets was 12.84 billion yuan in 1949, 15.85 billion yuan in 1952, and 26.30 billion yuan in 1955.<sup>36</sup> Computation of non-industrial fixed assets from these data indicates that the increase in nonindustrial fixed assets in the period 1950-1952 was about 75 per cent of that in industrial fixed assets, and the increase in nonindustrial fixed assets in the period 1953-1955 was about 60 per cent of that in industrial fixed assets. On the assumption of these proportions holding for nonstate enterprises taken separately, total additions to fixed assets for all nonstate enterprises are estimated as:

| Year | Million Yuan |
|------|--------------|
| 1950 | 298          |
| 1951 | 403          |
| 1952 | 473          |
| 1953 | 576          |
| 1954 | 592          |
| 1955 | 576          |

Total state completed investment for the years 1950-1956 was 26 per cent higher than total additions to fixed assets.<sup>37</sup> The estimates above for additions to fixed assets were raised by this percentage for the estimates of total nonstate enterprise investment. The portion of these expenditures paid for out of budgeted funds is estimated to be negligible. In 1956 and 1957 practically all private enterprises were socialized and

[ 61 ]

brought under state plans. In 1957 nonbudgeted investment for cooperatives and other socialized enterprises is given as 465 million yuan,<sup>38</sup> the 1956 investment of nonstate enterprises is assumed to have been at the same level as in 1957.

Weak as these estimates are, they indicate the general order of magnitude of investment of nonstate enterprises. The estimates (rounded to the nearest 0.1 billion yuan) are:

| Year | Billion Yuan |
|------|--------------|
| 1950 | .40          |
| 1951 | .50          |
| 1952 | .60          |
| 1953 | .70          |
| 1954 | .70          |
| 1955 | .70          |
| 1956 | .50          |
| 1957 | .50          |

### 3. Increases in Inventories (line 18)

Changes in the levels of inventories held by construction and transportation enterprises are not considered in this section. Construction inventory changes are already reflected in budget expenditures for basic construction, and budget data indicate that transportation inventories are likely to be small.

The magnitude of the increases in inventories in trade and industry is estimated crudely from data on increases in amount of stock of state commerce, increases in capital of private trade, working capital for industry in 1952 and 1955, increases in working capital of state industry together with figures on proportions of wholesale and retail turnover for state, joint state-private, cooperative, and private trade, and proportions of the gross value of output by state, cooperative, joint state-private, and private industry. These estimates are summarized in Table 5 and explained below.



[62]

Table 5  
CHANGE IN INVENTORIES, 1950-1957  
(Billion Yuan)

| Line  | 1950  | 1951  |
|---|-------|-------|
| Total inventories in industry and trade:                  |       |       |
| A Industry  | 1.780 | 2.590 |
| Trade   |       |       |
| B State, joint state-private, and cooperative             | 1.590 | 2.940 |
| C Private   | 1.760 | 1.950 |
| D TOTAL   | 5.130 | 7.480 |
| Change in inventories:                                    |       |       |
| E Industry and trade                                      | ...   | 2.350 |
| F Changes in government stocks of tax collections in kind | .110  | .530  |
| G TOTAL CHANGE  | .110  | 2.880 |

a. Industry. The estimate for industry requires first an estimate of working capital at the end of each year. Total net fixed assets and working capital at the end of 1952 are reported as 14.32 billion yuan,<sup>39</sup> of which net fixed assets are reported as 10.14 billion yuan,<sup>40</sup> leaving industrial working capital as 4.18 billion yuan. The 1952 relationship of working capital to gross value of production is used for 1950 and 1951, giving estimates of 2.23 billion yuan in 1950 and 3.24 billion yuan in 1951. The article referred to in note 39 also states that working capital at the end of 1955 was 5.73 billion yuan.

The estimates for 1953 and 1954 have to be derived from figures on state working capital. Since state industry is reported to have had 81.1 per cent of fixed assets in 1952,<sup>41</sup> and total net fixed assets have already been estimated at 10.14 billion yuan, net fixed assets of state industry were 8.22 billion. Net fixed assets and working capital for

[63]

Table 5  
CHANGE IN INVENTORIES, 1950-1957  
(Billion Yuan)

| 1952  | 1953   | 1954   | 1955   | 1956   | 1957   | Line |
|-------|--------|--------|--------|--------|--------|------|
| 3.340 | 4.420  | 4.560  | 4.580  | 5.380  | 6.880  | A    |
| 4.610 | 5.680  | 8.630  | 10.480 | 8.260  | 11.760 | B    |
| 1.790 | 2.080  | 1.540  | .900   | .180   | .000   | C    |
| 9.740 | 12.180 | 14.730 | 15.960 | 13.820 | 18.640 | D    |
| 2.260 | 2.440  | 2.550  | 1.230  | -2.140 | 4.820  | E    |
| .150  | -.130  | -.380  | -.010  | -.110  | +.180  | F    |
| 2.410 | 2.310  | 2.170  | 1.220  | -2.250 | 5.000  | G    |

state industry were 10.89 billion yuan, leaving a working capital of 2.67 billion.<sup>42</sup> Total working capital of state industry is reported to have increased 35.5 per cent in 1953 over 1952, 11.0 per cent in 1954 over 1953, 6.4 per cent in 1955 over 1954, and 17.4 per cent in 1956 over 1955.<sup>43</sup> State industrial working capital is therefore estimated as:

| Year | Billion Yuan |
|------|--------------|
| 1952 | 2.67         |
| 1953 | 3.62         |
| 1954 | 4.02         |
| 1955 | 4.28         |
| 1956 | 5.02         |

The residual figures for nonstate working capital in 1952 and 1955 are 12.7 per cent of gross value of production for these enterprises in 1952 and about 10.0 per cent of gross value of output in 1955. These ratios

[ 64 ]

are about two-thirds of the corresponding ratios for state industry of 18.7 per cent in 1952 and 15.2 per cent in 1955. The ratio for nonstate working capital in 1953, 1954, and 1956 is therefore assumed to be two-thirds that for state enterprises. This assumption yields estimates for nonstate working capital of 1.91 billion yuan in 1953, of 1.68 billion yuan in 1954, and of 1.71 billion yuan in 1956. Summing the estimates for state and nonstate industry for each year yields the estimate for all industry. About four-fifths of working capital in industry is reported to be used for materials related to production, and the remainder is related to distribution.<sup>44</sup> Most of the latter category is for cash reserves and accounts receivable. The estimates of inventories for 1950 through 1956 given in Table 5 are based on a flat percentage of 80 per cent of total working capital as estimated for each year. The increase in inventories for industry in 1957 is reported as 1.5 billion yuan.<sup>45</sup>

b. State, cooperative, and joint state-private trade. The article cited above reports percentage increases in the amount of stock in state commerce as follows:<sup>46</sup>

| Year | Per Cent |
|------|----------|
| 1951 | 83.6     |
| 1952 | 49.7     |
| 1953 | 20.0     |
| 1954 | 44.4     |
| 1955 | 23.0     |
| 1956 | -16.1    |

Government stocks of commodities decreased by "some 2 billion yuan" in 1956.<sup>47</sup> This decrease probably includes a decrease in stocks of state trading departments and in construction materials which were used in capital construction in 1956, since the article giving the figures for stock of state-operated trade states that capital construction increased more rapidly than production of construction materials and

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that purchasing power increased more rapidly than production of industrial consumer goods. Both the figures given for the increases in output of such construction materials in 1956<sup>48</sup> and those for the greater increase in purchases of these materials<sup>49</sup> indicate that stocks of construction materials decreased by some 700 million yuan. Since such construction materials were reported in 1955 to be overstocked to the extent of 1,440 million yuan,<sup>50</sup> this estimate of the amount by which stocks of construction materials were drawn down is reasonable. Therefore, stocks of state-operated trade are estimated to have decreased by 1.3 billion yuan.

This figure and the percentages of annual change given above furnish the following very rough estimates for the total value of inventories for state-operated trade:

| Year | Billion Yuan |
|------|--------------|
| 1950 | 1.38         |
| 1951 | 2.53         |
| 1952 | 3.78         |
| 1953 | 4.54         |
| 1954 | 6.56         |
| 1955 | 8.07         |
| 1956 | 6.77         |

It is assumed that inventories at the wholesale level in relation to sales were twice the inventories at the retail level and that state-operated trade handled inventory requirements for joint state-private trade. On these assumptions and using figures for sales turnover in "The Statistical Tables" and the official statistical report for 1956,<sup>51</sup> state-operated trade handled the following percentages of total inventories of state, cooperative, and joint state-private trade:

| Year | Per Cent |
|------|----------|
| 1950 | 87       |
| 1951 | 86       |
| 1952 | 82       |

[66]

|      |    |
|------|----|
| 1953 | 80 |
| 1954 | 76 |
| 1955 | 77 |
| 1956 | 82 |

The estimated value of inventories for the total group presented in Table 5 was obtained by assuming that inventories in state trade constituted these percentages of total inventories in state, cooperative, and joint state-private trade. The total increase in inventories for commercial enterprises is given as 3.5 billion yuan in 1957.<sup>52</sup>

c. Private trade. An article on private commercial trade<sup>53</sup> presents an index of the value of capital in private commercial trade as follows:

| Year | Index |
|------|-------|
| 1950 | 100.0 |
| 1951 | 110.6 |
| 1952 | 101.5 |
| 1955 | 51.0  |

Capital in 1954 decreased by 26 per cent compared to 1953, but the percentage change of private-trade capital during 1953 is not reported. Data for other years, however, show that except for 1951 there is a rough correspondence between the change in retail sales and the change in capital of private trade.\* Retail sales by private trade went up 15.9 per cent in 1953. Capital in 1953 is therefore estimated to have been

\* The article cited (ECMM, No. 52, September 17, 1956) gives the following data on retail sales, capital, personnel, and number of trade establishments in per cent of previous year:

| Year             | Retail Sales | Capital | Personnel | No. of Trade Establishments |
|------------------|--------------|---------|-----------|-----------------------------|
| 1951             | 131.4        | 110.6   | 111.8     | 111.9                       |
| 1952             | 91.6         | 91.8    | 91.5      | 95.7                        |
| 1953             | 115.9        | n.a.    | n.a.      | n.a.                        |
| 1954             | 73.6         | 74.0    | 73.4      | 75.8                        |
| 1955 (% of 1952) | 46.5         | 50.2    | 57.6      | 68.2                        |

[67]

about 16 per cent above the 1952 level; and this estimate gives a complete index of the value of capital in private commercial trading establishments.

At the end of 1955, total capital of private trade in municipalities was reported as 460 million yuan, total number of establishments as 1,233,000, and total number of personnel as 1,792,000.<sup>54</sup> According to an article on trade,<sup>55</sup> private commercial trade in municipalities in 1955 included 45 per cent of total private trade establishments and 49 per cent of total personnel, including self-employed traders. Since total personnel seems to be more typical of changes in total capital in the article quoted above, the personnel percentage was used to estimate total capital for private trade. The estimate for 1955, rounded, is therefore 900 million yuan. The index was used against this figure to secure estimates of private trade capital in the years from 1950 through 1955 as presented in Table 5. In 1956, retail trade of private commercial enterprises was 20 per cent of 1955 retail trade, and this percentage was applied to inventories. In 1957 these enterprises were probably brought under state control. In view of the very rough basis of estimating "capital," all capital is assumed to be invested in inventories. The average ratio of inventories to sales as estimated is well below that for state enterprises.

d. Changes in government stocks of tax collections in kind. Increases or decreases in government stocks of tax collections in kind are estimated on pages 116-117. These purchases, plus or minus, on capital account are offset by a corresponding item in the government surplus on current account.

e. Increases in inventories in 1950 (line 18). Table 5 does not include an estimate of the increase in inventories in 1950. In view of the greater scarcity of goods in 1950 than in 1951, increases in inventories other than tax collections in kind were assumed to have been

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half the increases that occurred in 1951, which gives an estimated 1.29 billion yuan for the total increase in inventories.

Purchases and Charges for the Nonagricultural Business Sector

Purchases from Other Sectors

1. From Agriculture (line 20)

This item is identical with Line 4 in the Agricultural Business Sector Account.

2. From Abroad (line 21)

Total imports for 1950 through 1955 were estimated by subtracting exports from the total value of foreign trade. Imports are reported for 1956 and 1957. (See page 51.) Estimated imports are:

| Year | Billion Yuan |
|------|--------------|
| 1950 | 2.12         |
| 1951 | 3.50         |
| 1952 | 3.74         |
| 1953 | 4.59         |
| 1954 | 4.43         |
| 1955 | 6.08         |
| 1956 | 5.30         |
| 1957 | 4.84         |

3. From Government (line 22)

This item represents estimated miscellaneous state receipts from sales of commodities produced by forced labor and is identical to line 57 in the Government Sector Account.

Charges against Nonagricultural Gross Product

1. Compensation of Employees

a. Employees of state, cooperative, and joint state-private enterprises and government organs. Total money wages of these employees

[69]

are reported to have been 6.5 billion yuan in 1953, 7.4 billion yuan in 1954, 8.3 billion yuan in 1955, and 10.7 billion yuan in 1956.<sup>56</sup>

The 1956 figure, however, probably does not include workers of enterprises that were socialized in 1956. The inclusive figure for 1956 is given as 12.9 billion yuan.<sup>57</sup> All workers probably were brought under state plans in 1957, and total wages were 15.25 billion yuan.<sup>58</sup> Wages in socialized enterprises in 1955 are reported as 76 per cent above those of 1952,<sup>59</sup> indicating a money wage bill of 4.7 billion yuan in 1952 for these employees. The total number of employees in socialized enterprises was 5,195,000 in 1950 and 7,790,000 in 1951.<sup>60</sup> The Five Year Plan figure for 1952 is 10,124,000.<sup>61</sup> The index of average money wages for industrial workers in 1950 was 63.4 per cent of 1952; in 1951 it was 90.1 per cent of 1952 (see Chapter 8, below, Table 15). In the absence of data on average money wages for all employees, the index for average money wages for industrial workers is assumed to indicate also the change in average money wages for state, cooperatives, and joint state-private enterprises. On this assumption, total money wages for these groups were calculated from the data given above. The estimates are 1.5 billion yuan in 1950 and 3.3 billion yuan in 1951.

Employees in this sector, numbering 10,124,000 in 1952 according to the Five Year Plan, probably included permanent workers only. Temporary employees in the socialized sector are estimated to have numbered about 590,000 (see Table 6). Therefore, a money wage bill of 4.7 billion yuan in 1952 indicates an average annual wage of about 440 yuan.

Two checks of the reasonableness of this average wage can be made. Membership in the All-China Federation of Labor increased from 7.27 million persons in 1951 to 10.2 million by the end of 1952; this suggests an average membership during the year of 8.7 million persons.<sup>62</sup> According to the financial report of Li Tsai-wen on May 3, 1953, the

[70]

Table 6  
NUMBER AND WAGES OF WORKERS AND CLERICAL STAFF IN  
THE SOCIALIZED SECTOR, COMMUNIST CHINA, 1952

| Sector  | Number of<br>Workers*<br>(Thousands) | Average<br>Annual Wage†<br>(Yuan) | Total Wages<br>(Million Yuan) |
|---|--------------------------------------|-----------------------------------|-------------------------------|
| Industry  | 2,863                                | 540                               | 1,546                         |
| Commerce  | 1,134                                | 425                               | 482                           |
| Transportation and<br>telecommunications                              | 716                                  | 530                               | 379                           |
| Agriculture, water con-<br>servancy, afforestation,<br>weather bureau | 239                                  | 400                               | 96                            |
| Building  | 1,021                                | 500                               | 510                           |
| Government admin-<br>istration  | 1,523                                | 300                               | 457                           |
| Social, cultural, and<br>educational activities                       | 2,282                                | 400                               | 913                           |
| Municipal public<br>utilities   | 41                                   | 500                               | 21                            |
| Finance   | 305                                  | 425                               | 130                           |
| Total permanent<br>employees  | 10,124                               | 448                               | 4,534                         |
| Temporary employees   | 590                                  | 450                               | 265                           |
| TOTAL EMPLOYEES   | 10,714                               | 448                               | 4,799                         |

\* Figures from First Five Year Plan.

† Based on sample wage data from newspaper reports.

All-China Federation of Labor received dues payments from its national unions of 3,794,825 yuan in 1952.<sup>63</sup> Since union dues are 1 per cent of total wages and national unions contribute 10 per cent of dues

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collected to the All-China Federation of Labor, the total wage bill is estimated to be 3,795 million yuan for the 8.7 million union members. The average wage indicated by this estimate is 436 yuan—very close to the average wage estimated above.

A second check can be made by using labor force figures and average wages by sector based on sample wage data for 1952. A summary of this estimate is presented in Table 6. The average wage so derived is 448 yuan, slightly higher than the average estimated above.

b. Subtraction of compensation for government employees. The estimate of money wages obtained above includes compensation of government administrative employees and cultural, educational, and medical workers. This must be subtracted. The data presented in Table 6 indicates that money wages in 1952 were 913 million yuan for cultural, educational, and medical workers and 457 million yuan for administrative workers. The total wage bill shown in Table 6 is 4,799 million yuan, which is slightly larger than the total of 4.7 billion yuan estimated on page 69. Reducing the component figures to make them consistent with a total of 4.7 billion yuan yields estimates of 890 million yuan for cultural, educational, and medical workers and 450 million yuan for administrative workers in 1952. This leaves 3.36 billion yuan as the money wages of employees in state, cooperative, and joint state-private enterprises.

Since little information for 1950 and 1951 is available concerning these employees, money wages for this group in these years were crudely estimated by assuming that they were the same proportion of total expenditures for the relevant category of the budget as in 1952. On this basis, money wages for administrative workers were 340 million yuan in 1950 and 450 million yuan in 1951. The money wages for social, cultural, and educational employees are estimated, by this

[72]

procedure, to have been 290 million yuan in 1950 and 520 million yuan in 1951. The number of these employees in the years 1953 through 1957 is presented in Table 7 below. The index for average money wages for all employees, excluding those in private enterprises, is as follows (see Table 15):

| Year | Index | Year | Index |
|------|-------|------|-------|
| 1952 | 100.0 | 1955 | 119.4 |
| 1953 | 110.1 | 1956 | 133.5 |
| 1954 | 114.9 | 1957 | 139.4 |

In the absence of specific trends in wages of government workers alone, the over-all index is used to estimate money wages for administrative workers and for social, cultural, and educational employees. Therefore, money wages for administrative workers, for social, cultural, educational, and medical employees, and for employees in state, cooperative, and joint state-private enterprises are estimated to have been as follows (in million yuan):

| Year | Administrative Workers | Social, Cultural, Educational, and Medical Employees | Employees in State, Cooperative and Joint State-Private Enterprises |
|------|------------------------|--|---|
| 1950 | 340                    | 290  | 870   |
| 1951 | 450                    | 520  | 2,330   |
| 1952 | 450                    | 890  | 3,360   |
| 1953 | 490                    | 1,030  | 4,980   |
| 1954 | 510                    | 1,120  | 5,770   |
| 1955 | 560                    | 1,310  | 6,430   |
| 1956 | 630                    | 1,650  | 10,620  |
| 1957 | 640                    | 1,740  | 12,870  |

c. Compensation of employees in private enterprises. Total money wages of employees in the socialized sector and in private industry, trade, construction, and transportation are stated to have been

[73]

6.7 billion yuan in 1952.<sup>64</sup> Subtracting the wages for the socialized sector indicates that total money wages for private employees were 2 billion yuan in this year.

Data are available for other years for the number of employees in private enterprise. To obtain estimates of the total money wage bill in private enterprise, an estimate of changes in average money wages per worker was derived.

A first approximation estimate for 1952 was derived by comparison with Table 6. For commerce, the average wage for employees shown in Table 6 was used. For transportation and construction, an average wage of 510 yuan was employed, which is the average of state wage rates for modern transportation and construction in Table 6. Light industry workers receive lower wages than those in heavy industry, and private industry is more heavily concentrated in light industry than in heavy industry; therefore, an average wage of 500 yuan was used for private industry, in comparison with the average wage of 540 yuan in non-private industry shown in Table 6.

These wage estimates were then checked by comparing a total private enterprise wage bill estimate derived from them with the estimate of 2 billion yuan already obtained. Data in the First Five Year Plan indicate the following number of employees in the various sectors of private enterprise in 1952:

| Sector                                      | Employees  |
|---|------------|
| Industry                                    | 2,542,000  |
| Commerce                                    | 2,320,000  |
| Transportation and construction             | 221,000    |
| Individual handicrafts and carrier services | 5,247,000  |
| Personal services                           | 567,000    |
| TOTAL                                       | 10,897,000 |

[74]

Table 7  
TOTAL EMPLOYEES IN THE NONAGRICULTURAL BUSINESS  
SECTOR AND GOVERNMENT, 1950-1957

| Line  | 1950  | 1951  |
|---|-------|-------|
| Government  |       |       |
| State, cooperative, and joint state-private enterprises |       |       |
| A Permanent*  | ...   | ...   |
| B Temporary†  | ...   | ...   |
| C Government administrative‡                            | ...   | ...   |
| D Social, cultural, and educational activities§         | ...   | ...   |
| E Municipal public utilities                            | ...   | ...   |
| F TOTAL PERMANENT EMPLOYEES IN<br>SOCIALIZED SECTOR¶    | 5,195 | 7,790 |
| Private sector  |       |       |
| G Industry**  | 1,816 | 2,300 |
| H Trade††   | 2,265 | 2,535 |
| I Transportation and construction‡‡                     | 240   | 320   |
| J Individual handicrafts and carrier services§§         | 3,280 | 4,470 |
| K Private personal services                             | ...   | ...   |
| L TOTAL EMPLOYEES                                       | ...   | ...   |

\* The figure of permanent workers in 1952 is given in the First Five Year Plan. The annual statistical report for 1953 (Supplement to People's China, No. 22, November 16, 1954) gives the total as 8,890,000, a figure which can be reconciled with the Five Year Plan data only if it includes temporary workers and the First Five Year Plan figures exclude them. The figure for 1953 is the residual from the figures for government and social, cultural, and educational personnel against the total for the socialized sector. The 1954 figure checks both as a residual and against the total claimed increase of 800,000 workers in 1954. (NCNA, September 22, 1955.) The 1955 figure is part of figures on 1955 labor force. See note below. Figures for 1956 (NCNA, July 5, 1957) and 1957 (NCNA, February 13, 1958) are given, inclusive of temporary workers, but exclusive of workers outside plan. The figure for workers outside the state plan in 1956 is a residual from the other figures and the total number of workers (TCKT, No. 14, July 29, 1957, pp. 13-14), and all workers were probably brought under the state plan in 1957.

† Figures for temporary workers are based on the annual statistical report for 1953 and other data as given. These figures are not essential to the methodology used,

[75]

Table 7  
TOTAL EMPLOYEES IN THE NONAGRICULTURAL BUSINESS  
SECTOR AND GOVERNMENT, 1950-1957

| 1952   | 1953   | 1954   | 1955   | 1956   | 1957   | Line |
|--------|--------|--------|--------|--------|--------|------|
| 6,278  | 8,330  | 9,095  | 10,024 | 16,349 | 19,153 | A    |
| (587)  | (560)  | (600)  | (885)  | ...    | ...    | B    |
| 1,523  | 1,500  | 1,500  | 1,576  | 1,600  | 1,550  | C    |
| 2,282  | 2,390  | 2,500  | 2,810  | 3,160  | 3,200  | D    |
| 41     | 50     | 55     | 60     | 70     | 70     | E    |
| 10,124 | 12,270 | 13,150 | 14,470 | 21,179 | 23,973 | F    |
| 2,542  | 2,745  | 2,350  | 1,730  | ...    | ...    | G    |
| 2,320  | 2,100  | 1,545  | 1,335  | 1,131  | ...    | H    |
| 221    | 210    | 180    | 130    | ...    | ...    | I    |
| 5,247  | ...    | ...    | ...    | ...    | ...    | J    |
| 567    | ...    | ...    | ...    | ...    | ...    | K    |
| 21,021 | ...    | ...    | ...    | ...    | ...    | L    |

but are included to show the basis by which some of the reports have been reconciled with the other data available.

‡ The 1952 figure has already been discussed, and the 1955 figure was given in a report on the 1955 labor force in the socialized sector. (KTTH, No. 23, December 14, 1956, pp. 28-30.) The figures for 1953 and 1954 are based on the general level for 1952 plus reports of slight reductions in government personnel. The 1956 and 1957 figures are based on reports of trends and not on specific data.

§ Social, cultural, and educational workers are given in the sources cited for 1952 and 1955. The 1954 figure is estimated on the basis of a report on the labor force (SCMP, No. 14, November 14, 1955) and the 1953 figure is interpolated. The increase in 1956 is given (Chi-hua Ching-chi [Planned Economy], Peiping, No. 3, March 9, 1957, pp. 14-15), and little increase was expected for 1957.

|| Figures for municipal workers are available only for 1952 but are moved with over-all trends in order to secure the residual for employees in economic departments.

¶ The figures for 1950 through 1953 are taken from an article on employees in the

[76]

socialized sector. (ECMM, No. 36, May 21, 1956.) The figure for 1954 is taken from the statement in Li Fu-shun's report on the First Five Year Plan that employees increased by 3 million from 1952 to 1954. (Supplement to *People's China*, August 16, 1955.) The 1955 figure is given in the report cited above, after subtracting figures on temporary employees. The 1956 and 1957 figures are given. See note (\*) above.

\*\* A figure for 1950 and a percentage increase in 1953 are reported. (KTTH, No. 19, October 14, 1956, pp. 4-8.) Figures for the other years are based on estimates of output and an index of output per worker, excluding staff and miscellaneous workers. (ECMM, No. 63, December 31, 1956, p. 6.)

†† The figures are based on percentage changes in number of employees for the periods 1950-1952 and 1954-1955. (ECMM, No. 52, September 17, 1956, pp. 19-22.) The 1953 figure is based on a residual from total industry and commerce. (Supplement to *People's China*, No. 22, November 16, 1954.)

‡‡ Construction workers in private enterprises are estimated at 30,000 in 1952 as a residual from total workers (TCKT, No. 14, July 29, 1957, pp. 13-14) and figures for the socialized sector given in the First Five Year Plan. Private construction workers are given as 100,000 in 1950 and 150,000 in 1951 (KTTH, No. 24, December 29, 1956, pp. 31-33). By 1953 all construction workers were probably socialized. Transportation workers are estimated at 191,000 in 1952 and their numbers for 1950 through 1955 are estimated as the same ratio to private industrial workers as in 1952.

§§ The 1952 figure has already been cited. The figures for 1950 and 1951 are crudely estimated in the same proportion to total labor force as in 1952. No specific data are available for employees in these groups after 1952, except that the total number of people involved in individual handicraft in 1956 was 8 per cent higher than in 1952. (NCNA, December 16, 1957.) Since some of those included in this total have probably been converted into joint state-private or state enterprises, the total labor force in these groups is assumed to have remained constant since 1952.

|| Figures taken from the First Five Year Plan.

The average wages estimated above, together with these employment figures, indicate a total money wage for these groups of 2.37 billion yuan in 1952. Since the estimate already derived is 2 billion yuan, or about 85 per cent of this, each average wage-rate estimate derived above was reduced by 15 per cent to arrive at final estimates of average money wages of employees in private enterprises in 1952.

It was assumed that the percentage changes in average money wages in each sector of private enterprise from year to year during the period 1952-1955 were the same as those in the socialized sector (see the

[77]

index presented on page 72), and that the changes during the period 1950-1952 were the same as for state industrial workers (see Table 15). On these assumptions and using the labor force estimates for private industry presented in Table 7, the following estimates of total money wages in private enterprise were derived for 1950 through 1954:

| Year | Billion Yuan |
|------|--------------|
| 1950 | 1.1          |
| 1951 | 1.8          |
| 1952 | 2.0          |
| 1953 | 2.2          |
| 1954 | 1.9          |

For 1955 the procedure used yields an estimate of 1.5 billion yuan. However, total wages for the socialized sector plus these groups of private employees are stated as 10.0 billion yuan in 1955 and 13.6 billion yuan in 1956.<sup>65</sup> Subtraction of wages of those in the socialized sector yields a residual of 1.7 billion yuan for the private sector in 1955 and 0.7 billion yuan in 1956. The latter estimates are used. In 1957 all employees were probably included in the socialized sector.

Wages in individual handicraft and carrier services and miscellaneous personal services were certainly much lower than average wages in the sectors discussed above. Since average wages for private industry commerce, construction, and transportation as estimated above are about 390 yuan per worker, an average wage of 300 yuan a year is used for workers in individual handicraft and carrier services and miscellaneous personal services in 1952. The same indexes of average money wages as above are used with the labor force figures in Table 7 to derive estimates of money wages of employees in individual handicrafts and carrier services. They are:

| Year | Billion Yuan |
|------|--------------|
| 1950 | .60          |



[78]

|      |      |
|------|------|
| 1951 | 1.20 |
| 1952 | 1.60 |
| 1953 | 1.75 |
| 1954 | 1.80 |
| 1955 | 1.90 |
| 1956 | 2.10 |
| 1957 | 2.20 |

Compensation of personal services employees in the private sector in 1952 is estimated to have been 0.2 billion yuan. The same ratio to total wages for all other employees as in 1952 is used for other years, giving these estimates:

| Year | Billion Yuan |
|------|--------------|
| 1950 | .08          |
| 1951 | .15          |
| 1952 | .20          |
| 1953 | .25          |
| 1954 | .27          |
| 1955 | .29          |
| 1956 | .38          |
| 1957 | .41          |

d. Fringe benefits. From data for 1953 through 1955 an estimate of the ratio of fringe benefits to cash wages may be derived. For these years, total expenditures of the state and various enterprises for subsidies for medical services, free medical services, subsidies to students, relief for dependents of martyrs and services for disabled servicemen and public welfare, subsidies for safety measures, and rewards in enterprise were approximately 3.2 billion yuan.<sup>66</sup> This figure includes both budget expenditures and expenditures by socialized enterprises. Budget expenditures carried as transfer payments (see page 124) are estimated to have been 2.2 billion yuan for these years. However, this figure for transfer payments includes relief payments of 0.9 billion yuan<sup>67</sup> which are not included in the total figure of 3.2 billion yuan.

Budget transfer payments for the categories included in the 3.2 billion figure are therefore estimated at 1.3 billion yuan. Nonbudgeted expenditures for insurance and other benefits are estimated to have been 1.9 billion yuan, which is approximately 8 per cent of the absolute figures for total money wages in the socialized sector from 1953 through 1955. This percentage for fringe benefits is applied to estimated money wages for government organs and state, cooperative, and joint state-private enterprises for all years. In the private sector, only the relatively organized segment probably furnishes similar fringe benefits. Only enterprises with 100 or more workers are included in labor insurance regulations, and many workers in the private sector are not organized into unions. Fringe benefits for private enterprises are therefore not applied to individual handicrafts, native transportation, and personal services and are assumed to be only 4 per cent of money wages for other employees in the private sector.

e. Summary: Compensation of nonagricultural business employees

(line 23). Total compensation in the socialized sector, including fringe benefits equal to 8 per cent of money wages, is estimated as:

| Year | Million Yuan |
|------|--------------|
| 1950 | 940          |
| 1951 | 2,520        |
| 1952 | 3,630        |
| 1953 | 5,380        |
| 1954 | 6,230        |
| 1955 | 6,940        |
| 1956 | 11,470       |
| 1957 | 13,900       |

Total compensation of private industry, trade, transportation, and construction, after adding 4 per cent money wages as fringe benefits, is estimated to have been:

[80]

| <u>Year</u> | <u>Million Yuan</u> |
|-------------|---------------------|
| 1950        | 1,140               |
| 1951        | 1,870               |
| 1952        | 2,080               |
| 1953        | 2,290               |
| 1954        | 1,980               |
| 1955        | 1,770               |
| 1956        | 730                 |
| 1957        | 0                   |

No fringe benefits are estimated for compensation of individual handicrafts, carrier services, and for personal services; hence compensation in these sectors is estimated as given on pages 77-78 above. Total compensation of nonagricultural employees is the sum of these figures (see line 23):

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | 2.76                |
| 1951        | 5.74                |
| 1952        | 7.51                |
| 1953        | 9.67                |
| 1954        | 10.28               |
| 1955        | 10.90               |
| 1956        | 14.68               |
| 1957        | 16.51               |

## 2. Rental Income (line 24)

Rental income in the nonagricultural sector is equal to rental sales less estimated purchases of materials for house repairs. (See pages 48 and 49.) Rental income as listed in the account includes both imputed and cash rentals. Wages and profits of those engaged in house repairs or other maintenance are included as well as rental income earned by persons and the rental income of business enterprises. In all probability rental income from state enterprises is not included in the budget figures for profits but in miscellaneous state nontax receipts. If rental income

[81]

is included in state enterprise profits, such income is felt to be negligible on the basis of the 1955 breakdown of state profits and depreciation allowances.

## 3. Consumer Service Occupations (line 25)

Sales of consumer services were estimated on page 50 to have been (line 11):

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | 1.23                |
| 1951        | 1.59                |
| 1952        | 1.83                |
| 1953        | 2.32                |
| 1954        | 2.88                |
| 1955        | 3.16                |
| 1956        | 3.66                |
| 1957        | 4.10                |

Compensation of employees in these services, as estimated on page 78, is subtracted from these totals to avoid double-counting, yielding the following estimates:

| <u>Year</u> | <u>Billion Yuan</u> |
|-------------|---------------------|
| 1950        | 1.15                |
| 1951        | 1.44                |
| 1952        | 1.63                |
| 1953        | 2.07                |
| 1954        | 2.61                |
| 1955        | 2.87                |
| 1956        | 3.28                |
| 1957        | 3.69                |

The estimate of total sales of consumer services is, because of the method employed, likely to reflect only that portion of consumer expenditures estimated to be spent to support those engaged in these occupations. Food supplied by restaurants and similar consumer goods and other materials used by service occupations are assumed to have

[82]

Table 8

REVENUE OF STATE ENTERPRISES AND PROPORTION OF  
TOTAL SECTOR, 1950-1957

| Line   | 1950   | 1951  | 1952  |
|--|--------|-------|-------|
| Industry   |        |       |       |
| Budget revenue*  |        |       |       |
| A Million yuan   | 1,280  | 2,055 | 3,000 |
| Major repair funds   |        |       |       |
| B Million yuan†  | (320)  | (340) | (380) |
| C Percentage of gross value‡                               | 44.2   | 48.9  | 55.3  |
| Construction   |        |       |       |
| D Million yuan§  | 85     | 180   | 275   |
| E Percentage   | 75     | 75    | 98.0  |
| Transportation, postal, and<br>telecommunications services |        |       |       |
| F Million yuan¶  | 865    | 1,255 | 1,525 |
| G Percentage   | 90     | 90    | 93    |
| Foreign trade  |        |       |       |
| H Million yuan**   | 535    | 925   | 1,115 |
| I Percentage††   | 68.35  | 83.18 | 91.79 |
| Domestic trade   |        |       |       |
| J Million yuan‡‡   | 425    | 985   | 1,830 |
| K Percentage§§   | 16.1   | 24.5  | 38.5  |
| Forestry and agriculture                                   |        |       |       |
| L Million yuan   | 150    | 265   | 295   |
| M Miscellaneous¶¶  | 60     | 130   | 265   |
| N Residual***  | -1,453 | -110  | 658   |
| O TOTAL BUDGET<br>REVENUE                                  | 1,947  | 5,685 | 8,963 |

\* The total state revenue for industry for 1952 through 1955 is given in an article on accumulation of state industry. (KTTH, No. 22, November 29, 1956, pp. 25-33.) The figures for 1950 and 1951 are moved by gross value figures converted to current prices by the wholesale price index. (See page 134.) The 1956 and 1957 figures are based on figures for profits from industrial enterprises, less estimated profits of

[83]

Table 8

REVENUE OF STATE ENTERPRISES AND PROPORTION OF  
TOTAL SECTOR, 1950-1957

| 1953   | 1954   | 1955   | 1956   | 1957   | Line |
|--------|--------|--------|--------|--------|------|
| 4,200  | 6,245  | 7,480  | 7,774  | 9,296  | A    |
| (450)  | (580)  | (670)  | (840)  | (990)  | B    |
| 57.0   | 65.2   | 71.0   | 81.7   | 82.0   | C    |
| 535    | 560    | 550    | 855    | 740    | D    |
| 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | E    |
| 1,970  | 2,505  | 2,415  | 2,875  | 3,070  | F    |
| 93     | 94     | 94     | 97     | 97     | G    |
| 1,395  | 1,555  | 2,060  | 2,030  | 1,895  | H    |
| 92.12  | 98.17  | 100.0  | 100.0  | 100.0  | I    |
| 2,655  | 3,605  | 3,640  | 5,300  | 5,340  | J    |
| 42.4   | 52.7   | 59.3   | 69.0   | 70.0   | K    |
| 560    | 795    | 715    | 1,965  | 1,485  | L    |
| 405    | 610    | 671    | ...    | ...    | M    |
| 983    | -308   | 0      | 0      | 0      | N    |
| 12,703 | 15,567 | 17,531 | 20,799 | 21,826 | O    |

construction enterprises or activities, plus the taxes estimated as a residual from total state enterprises taxes, less taxes estimated in the other sectors.

† Major repair funds are estimated on page 92.

‡ The proportion of total industrial output for the period 1950-1955 is based

[84]

on gross value figures in "The Statistical Tables." (CB, No. 429, November 26, 1956.) To represent state income from joint state-private enterprises half of the proportion of joint state-private output is assumed to be the state share of stock in these enterprises. The 1956 and 1957 proportions are based on the figures for 1956 (NCNA, August 1, 1957), with a slight upward adjustment in 1957.

<sup>5</sup> Trends in construction and installation work for 1952 through 1956 are based on value figures and an estimate of 10 per cent of total value as profits and taxes on the basis of data on construction costs. (ECMM, No. 115, January 20, 1957, p. 42.) Of this, half is estimated to be taxes. The 1950 and 1951 figures are taken from figures on over-all construction in relation to 1952. The 1957 figure is in the same proportion of total completed investment as in 1956. (NCNA, February 13, 1958.)

<sup>6</sup> The proportion of the total for private enterprises is given as 25 per cent in 1950 and 1951 and 1.7 per cent in 1952. (KTTH, No. 24, December 29, 1956, pp. 31-33.) The rest had probably been converted to state enterprises by 1953.

<sup>7</sup> State income in 1955 is based on profits as given (NCNA, June 15, 1956) plus 35 per cent as the estimate for taxes based on the residual for taxes as against profits of this sector, forestry, agriculture, and miscellaneous. On the basis of the proportion of freight moved for rail, water, and highway transportation by state enterprises, a total for all modern transportation for 1950 through 1955 was calculated. This was moved for 1950 through 1954 by an index of value added for modern transportation and converted to current prices by the wholesale price index. Thus for 1950 through 1955 the percentage for state enterprises was derived from the estimated total value of income originating by the value added weights for each year and the proportions of tonnage originated. Rail transportation is entirely state owned, and the adjustments are for proportions of water and highway transportation for state enterprises. In the absence of specific trends in freight rates, the estimates are subject to considerable error. The estimates for 1956 and 1957 are based on budget figures for profits and on the statement that all private enterprises were converted to joint state-private enterprises (NCNA, August 1, 1957), with the state share as half of the total.

<sup>8</sup> Profits paid to the state by foreign trade enterprises during the period 1953-1957 are to match the amount of money planned by the state to be invested in agriculture, forestry, water conservancy, commerce, and banking enterprises. (NCNA, July 11, 1957.) Based on data on such investment in "The Statistical Tables," such investment is on the order of 4.6 billion yuan, or about 10 per cent of total value of foreign trade by state enterprises. Taxes in 1955 are estimated at 955 million yuan, based on the relation of taxes and profits used for domestic trade, or about 8.7 per cent of total foreign trade. The estimates for 1950 through 1957 are based, therefore, on a total for taxes and profits of 18.7 per cent of the proportion of foreign trade controlled by state enterprises.

<sup>9</sup> The percentage of total foreign trade by state enterprises is given for 1950 through 1954 (Vneshnaya Torgovlya [Foreign Trade], Moscow, No. 5, May 1956, pp. 1-13), and the trend shows that by 1955 the state probably had complete control of foreign trade.

<sup>10</sup> Profits for state commerce in 1955 were 3,320 million yuan, which probably includes interest paid by state trade on bank loans. In 1955, 12.5 per cent of net turnover was for state trading charges and 26.5 per cent of this was for interest (Chi-hua Ching-chi [Planned Economy], Peiping, No. 6, 1956), or about 760 million yuan. State trading charges were 13.05 per cent in 1954, 13.50 per cent in 1953 (ibid.), and were 16.27 per cent in 1951 and 15.9 per cent in 1952. (Ta Kung Pao, Tientsin, May 6, 1954.) In 1951 interest paid was 24.8 per cent of state trading charges. The 1951 ratio is used for 1950; a flat 25 per cent of trading charges for interest is used for 1952 and 1953; and 26.5 per cent, as in 1955, is used for 1954. Using wholesale turnover as roughly equivalent to net state turnover, interest paid is estimated (in million yuan) as: 1950-100; 1951-230; 1952-455; 1953-590; 1954-805; 1955-760. In 1954, taxes for state trade were 1.3 billion yuan and profits were 1.5 billion yuan. (Shang-yeh Ti Chi-pen Jen-wu [Basic Task of Trade], Peiping, December 1956.) Taxes and profits for 1950 through 1955 are assumed to have the same ratio as in 1954 to total state, retail, and wholesale turnover plus half of the turnover for the joint state-private trade. For 1955, taxes are estimated at 1,420 million yuan, and profits and interest paid as 2,220 million yuan as a residual from total profits and foreign trade profits. The 1956 and 1957 figures are estimated from data on state profits as a residual from foreign trade profits plus taxes in the same ratio to estimated trade turnover as in 1955.

<sup>11</sup> The percentage given is for state wholesale and retail turnover and half joint state-private turnover in relation to total commercial wholesale and retail turnover as found in "The Statistical Tables." The proportions for 1956 and 1957 are based on figures for commercial retail trade (NCNA, December 7, 1957), with wholesale turnover estimated on the basis of comparison of retail sales figures in 1955 and 1956 and the breakdown for wholesale turnover in 1955. A slight rise is assumed for 1957.

<sup>12</sup> Profits from agriculture and forestry were 532 million yuan in 1955, almost all probably from the lumber industry. On the basis of taxes unaccounted for, taxes are estimated to be 35 per cent of profits. State forestry enterprises produced about half the total timber in 1952 and 67.9 per cent in 1954; thus 50 per cent of total production was used for 1950 and 1951 and 60 per cent for 1953. These percentages were used to secure lumber production by state enterprises in the period 1950-1954 and converted to current prices by the wholesale price index. The balance of lumber production is included under supplementary farm industry and not under nonstate enterprises.

<sup>13</sup> Since wages for state bank employees are about one-half of the profits figure given, miscellaneous state profits as given for 1955 were probably almost entirely from the state banking system. The banking system is virtually monopolized by the state; therefore, no income is estimated for nonstate enterprises. Since the banking system is for the most part engaged in loans to state, joint state-private, and cooperative enterprises, income is estimated for 1950 through 1954 in the same proportion to wholesale and retail trade turnover for the socialized

[86]

sector as in 1955. In 1956 and 1957 the ratio of taxes to profits reported for these categories is assumed to be the same as in 1955.

\*\*\* The residual is the difference between the total for estimated state income and the budget figure for total profits and taxes. Since the breakdown is exhaustive for the years 1955-1957, there is no residual.

been left in the retail sales figure.\*

#### 4. Gross Income of Nonagricultural Nonstate Enterprises (line 26)

The estimate of nonstate nonagricultural income presented here is in all probability the least reliable of the estimates for income originating in the nonagricultural sector. The method used assumes the same average rate of income, including profits, depreciation charges, and taxes, as for state enterprise. The budget shows revenue (profits, depreciation charges, and taxes) for state enterprises, to which major repair funds for the state industry are added. These are allocated to various sectors, and the ratio of these profits, depreciation charges, and taxes for a given sector to the output generated in state enterprises in that sector was applied to secure total business income by state and nonstate enterprises combined for each sector. The total estimate for all income of nonstate enterprises presumably has a smaller margin of error than for the separate sectors. Also, the procedure used is more reliable for the years after 1953, when state enterprises constituted a larger proportion of total income originating than for earlier years and when more of private industry was producing on state purchase agreements.

##### a. Income of industry, construction, transportation, and trade.

Table 8 gives the estimated breakdown of state revenue by sector for

\* At least 10 million people are engaged in consumer service occupations, including a large number engaged in domestic service, in which average wages would be low. The 1952 estimate of 1.83 billion yuan for income from these occupations implies an average annual wage on the order of 180 yuan, or about 40 per cent of average wages and benefits for employees in the nonagricultural sector in 1952.

[87]

1950 through 1955, together with the estimated proportion of the total sector for state enterprises. A glance at Table 8 shows the difficulties of allocating state revenue by sector with the data available. The residual category shows the extent of overestimation or underestimation of state income in the years 1950-1954 resulting from the very rough procedures used. For 1950 and 1951 all the estimates of state revenue were changed proportionately to secure the total revenue of state enterprises given in budget data. Since the industrial revenue is given for 1952 through 1954, for these years the estimates for the other sectors were changed proportionately to secure the budget figure for total state revenue. The ratios to gross value of output in each sector given in Table 8 were then used to derive the estimates for nonstate enterprises given in Table 9. Estimates for forestry and miscellaneous enterprises are not presented in Table 9 because private income from forestry is estimated as part of the agricultural sector, and miscellaneous revenue is from the banking system and other income over which the state has virtually complete control.

b. Income of individual handicrafts, carrier services, and peddlers. Table 10 presents crude estimates of income originating in individual handicrafts, native transportation and stevedoring, and peddling. For 1950 through 1957, wages as given on pages 77-78 are subtracted. Income other than wages is estimated to have been:

| Year | Million Yuan |
|------|--------------|
| 1950 | 2,045        |
| 1951 | 2,815        |
| 1952 | 3,320        |
| 1953 | 4,455        |
| 1954 | 5,145        |
| 1955 | 4,940        |
| 1956 | 5,820        |
| 1957 | 5,315        |

c. Total income of nonstate enterprises (line 26). Income of

[88]

Table 9  
INCOME AND TAXES OF NONSTATE ENTERPRISES  
1950 - 1957  
(Million Yuan)

| Line | Sector                                   | 1950  | 1951  | 1952  |
|------|--|-------|-------|-------|
| A    | Industry                                 | 1,330 | 2,460 | 2,730 |
| B    | Construction                             | 15    | 60    | 5     |
| C    | Modern transportation and communications | 55    | 135   | 130   |
| D    | Foreign trade                            | 140   | 185   | 110   |
| E    | Commercial trade                         | 1,265 | 2,975 | 3,285 |
| F    | TOTAL                                    | 2,805 | 5,815 | 6,260 |

nonstate enterprises, as it appears in the sector account (Table III, line 26), is the total for industry, trade, and modern transportation in Table 9 plus income other than wages estimated above, less estimated indirect taxes for nonstate enterprise (see page 106). The estimates are:

| Year | Billion Yuan |
|------|--------------|
| 1950 | 3.57         |
| 1951 | 6.78         |
| 1952 | 7.49         |
| 1953 | 9.76         |
| 1954 | 9.43         |
| 1955 | 8.42         |
| 1956 | 7.45         |
| 1957 | 7.08         |

#### 5. Income of State Enterprises

In the framework of the accounts, only the income of state enterprises is treated as income of corporate enterprises. Except for the estimate of major repair funds, which are small relative to total state income, the entries in the accounts are based directly on data appearing

Table 9  
INCOME AND TAXES OF NONSTATE ENTERPRISES  
1950 - 1957  
(Million Yuan)

| 1953  | 1954  | 1955  | 1956  | 1957  | Line |
|-------|-------|-------|-------|-------|------|
| 3,510 | 3,645 | 3,330 | 1,930 | 2,260 | A    |
| 0     | 0     | 0     | 0     | 0     | B    |
| 170   | 155   | 155   | 90    | 95    | C    |
| 135   | 30    | 0     | 0     | 0     | D    |
| 4,080 | 3,130 | 2,395 | 2,380 | 2,290 | E    |
| 7,895 | 6,960 | 5,880 | 4,400 | 4,645 | F    |

in the budget. The subtraction of estimated indirect taxes, however, introduces some possibility of error. The most important decision affecting the total is that which excludes miscellaneous state budget revenue (see page 107) from current income of state enterprises.

a. Taxes (line 27). For direct taxes see page 106.

b. Profits, depreciation, and major repairs (line 29). Profits and capital consumption allowances are taken directly from figures in the final budgets for the years concerned. (See pages 101 and 104.) They are given as follows:

| Year | Million Yuan |
|------|--------------|
| 1950 | 869          |
| 1951 | 3,054        |
| 1952 | 5,728        |
| 1953 | 7,669        |
| 1954 | 9,961        |
| 1955 | 11,194       |
| 1956 | 13,426       |
| 1957 | 14,221       |

[90]

Table 10  
INCOME ORIGINATING IN INDIVIDUAL HANDICRAFTS,  
NATIVE TRANSPORTATION AND HANDLING SERVICES,  
AND PEDDLERS, 1950 - 1957

(Million Yuan)

| Sector                                       | 1950  | 1951  | 1952  | 1953  | 1954  | 1955  | 1956  | 1957  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| Individual handicrafts *                     | 1,375 | 2,155 | 2,800 | 3,450 | 3,970 | 3,840 | 4,410 | 3,970 |
| Native transportation and handling services† | 980   | 1,490 | 1,730 | 2,355 | 2,575 | 2,600 | 3,095 | 3,125 |
| Peddlers‡                                    | 290   | 370   | 390   | 400   | 400   | 400   | 415   | 420   |
| TOTAL  | 2,645 | 4,015 | 4,920 | 6,205 | 6,945 | 6,840 | 7,920 | 7,515 |

\* The 1952 estimate is based on an estimate of income originating for individual handicrafts of 30 per cent of gross value plus 600 million yuan in commodity taxes. The figures for 1953 through 1957 are the same proportion of gross value of output as in 1952, converted to current prices by the wholesale price index. The 1950 and 1951 figures are based on an index of light industry production from commodity production estimates and 1952 value-added weights, which is also used for individual handicrafts, and use of the wholesale price index to convert to current prices.

† The figures on native transportation and handling charges are based on data on trading charges for state trade applied against total retail and wholesale commercial turnover figures (which exclude transfers within state and cooperative trade). Transportation and miscellaneous handling expenses were 4.76 per cent of total gross turnover of state trade in 1952 (SCMP, No. 925, November 10, 1954, p. 17), and this is estimated as 5.9 per cent of net sales (excluding transfers within state trade). A breakdown of commodity turnover expenses for state trade for 1951 (Ching-chi Chou-pao [Economic Weekly], December 13, 1951) indicates that transportation is 4.9 per cent of net sales and that handling charges are 1.0 per cent of net sales. In addition, storage, grading, and packing charges constitute 2.1 per cent of net sales. Of transportation charges, expenditures by state commercial organs in 1952 constituted 13.4 per cent of total tonnage of railway freight and 48.4 per cent of the total tonnage of steamer freight. (SCMP, No. 925, November 10, 1954.) Applying these percentages to estimated freight revenue in 1952 indicates that modern transportation was about half of total transportation charges, or 2.45 per cent of net sales. Handling charges for the modern transportation freight outside trade channels would add 0.4 per cent of net sales. Total commercial turnover was 39,996 million yuan in 1952; therefore, native transportation charges are estimated as 980 million yuan, handling charges as 560

million yuan, and storage, grading, and packing as 840 million yuan. Data on farm supplementary income from native transportation indicate that costs are about 15 per cent of gross income, and this is used for handling charges. Storage, grading, and packing, however, are estimated to have higher raw material costs, or about half of total charges. This estimate of 1,730 million yuan in 1952 is moved against total net turnover figures for the other years.

‡ Total private merchants and peddlers in rural areas at the end of 1954 are given as 3.5 million people. (SCMP, No. 1066, June 10, 1955.) Commercial personnel in private trade in rural areas are given as 2,424 million. (KTTH, No. 18, September 29, 1956.) Peddlers are therefore estimated at about 1 million in 1955, and their average annual income is estimated to be about 400 yuan. The 1955 estimate is moved with figures for noncommercial private trade found in "The Statistical Tables," except that the 1956 estimate is derived from total retail sales less commercial retail sales (NCNA, August 1, 1957) and the 1957 figure is estimated on the basis of the increase in over-all retail sales over 1956.

Major repair expenditures, shown in the First Five Year Plan, to be paid for out of major repair allowances of state enterprise, were planned to be 3.6 billion yuan.<sup>68</sup> The total of such allowances plus bonus funds for the five-year period was planned at 4.387 billion yuan,<sup>69</sup> making it unlikely that income from major repairs was expected to exceed expenditures. The repair funds are allocated among the years concerned in proportion to estimated total value of industrial assets, not excluding depreciation, in each year. The "gross value of fixed assets" for state industry is given as 10.33 in 1949, 12.78 billion in 1952, and 22.3 billion yuan in 1955;<sup>70</sup> and an index of the value of fixed assets indicates a value of 14.93 billion yuan in 1953 and 19.29 billion yuan in 1954.<sup>71</sup> Estimates for 1950 and 1951 are interpolated by reference to the value of investment completed in 1950, 1951, and 1952. According to "The Statistical Tables," completed investment in 1952 was 1.549 billion yuan. This was 206 per cent of 1951 investment;<sup>72</sup> hence the latter was 750 million yuan. Budget data for economic construction expenditures in industry for 1950 and 1951<sup>73</sup> indicate that industrial investment was about 350 million yuan in 1950. Completed investment in the period 1950-1952 was thus 2.64 billion yuan. Since total additions

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to fixed assets were 2.46 billion, or 92.9 per cent of completed investment, fixed assets inclusive of depreciation are increased in 1950 and 1951 by 92.9 per cent of the completed investment figure; they are estimated to have been 10.66 billion yuan in 1950 and 11.35 billion yuan in 1951. Industrial investment figures for 1956 and 1957<sup>74</sup> indicate that fixed assets in 1956 would have a value on the order of 28 billion yuan and in 1957 on the order of 33 billion yuan. The fixed asset figures for the five years of the Plan total more than 117 billion yuan. The planned figure of 3.6 billion yuan for major repairs is about 3 per cent of this sum. Major repair funds are therefore estimated as 3 per cent of the gross value of fixed assets for each year, giving:

| Year | Million Yuan |
|------|--------------|
| 1950 | 320          |
| 1951 | 340          |
| 1952 | 380          |
| 1953 | 450          |
| 1954 | 580          |
| 1955 | 670          |
| 1956 | 840          |
| 1957 | 990          |

Total state income from profits, depreciation, and major repair funds is therefore estimated to have been as follows (line 28):

| Year | Billion Yuan |
|------|--------------|
| 1950 | 1.19         |
| 1951 | 3.39         |
| 1952 | 6.11         |
| 1953 | 8.12         |
| 1954 | 10.54        |
| 1955 | 11.86        |
| 1956 | 14.27        |
| 1957 | 15.21        |

c. Gain or loss to government on resales of tax collections in kind (line 29). The estimate of gain or loss in resales of tax collections

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in kind by government tax organs is included here because the difference represents an overstatement or understatement of factor income by state enterprises due to the difference between the tax valuation of tax collections in kind and the estimated average procurement prices for these commodities. (See page 114.)

#### 6. Indirect Taxes (line 30)

The estimated indirect taxes are presented in the government account (see page 106).

#### 7. Discrepancy (line 31)

The discrepancy is simply that figure which balances the account.

#### Notes for Chapter 4

1. CB, No. 429, November 26, 1956.
2. Ta Kung Pao, Tientsin, June 22, 1954.
3. NCNA, July 1, 1957.
4. Ibid., February 13, 1958.
5. First Five Year Plan, pp. 154-155.
6. Mao-i T'ung-chi-hsueh (Trade Statistics), Shanghai, October 1952.
7. Kuo-ying Shang-yeh Tsai Wo Kuo Kuo-tu Shih-ch'i Ti Tso-yung (The Function of State Commerce in Our Country's Transition Period), Peiping, February 1957, p. 23.
8. Ta Kung Pao, Peiping, September 24, 1957, p. 3.
9. CB, No. 352, September 1, 1955, p. 7.
10. People's China, October 16, 1957, p. 18.
11. Chi-hua Ching-chi (Planned Economy), Peiping, No. 3, March 9, 1957, pp. 14-15.
12. TCKT, No. 14, July 29, 1957, pp. 13-14.
13. NCNA, July 1, 1957.
14. Ta Kung Pao, Hong Kong, December 17-18, 1952.
15. SCMP, No. 1151, October 15-18, 1955.
16. Trade with China, A Practical Guide, Ta Kung Pao, Hong Kong, March 1957, p. 21.
17. Asia Keizai Jumbo (Asia Economic Weekly), Tokyo, March 1, 1957.
18. CB, No. 468, July 22, 1957, p. 1.
19. NCNA, February 13, 1958.



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20. Hua-ch'iao Jih-pao (Overseas Chinese Daily), Hong Kong.
21. China Handbook, 1950, Rockport Press, New York, 1950.
22. Far Eastern Economic Review, 1950-1956, *passim*.
23. TCKT, No. 12, June 29, 1957, pp. 28-33.
24. KTHH, No. 18, September 29, 1956, pp. 4-6.
25. TCKT, No. 12, June 29, 1957.
26. NCNA, June 29, 1957.
27. Ibid., February 12, 1958.
28. Ts'ai-cheng (Public Finance), Peiping, No. 1, January 5, 1957, pp. 11-12.
29. TCKT, No. 12, June 29, 1957.
30. NCNA, June 29, 1957.
31. Ibid., February 12, 1958.
32. CB, No. 429, November 26, 1956.
33. NCNA, July 1, 1957.
34. TCKT, No. 1, January 14, 1957, pp. 31-33.
35. KTHH, No. 22, November 29, 1956, pp. 25-33.
36. TCKT, No. 1, January 14, 1957.
37. Ibid., No. 17, September 14, 1957, pp. 1-3.
38. NCNA, February 12, 1958.
39. TCKT, No. 1, January 14, 1957.
40. NCNA, October 1, 1957.
41. KTHH, No. 22, November 29, 1956, pp. 25-33.
42. TCKT, No. 1, January 14, 1957.
43. ECMM, No. 90, July 15, 1957, p. 12.
44. She-hui-chu-i Kung-yeh Ch'i-yeh Ti Liu-tung Tzu-chin (Working Capital of Socialistic Industrial Enterprises), Jen-min Ch'u-pan-she (People's Publishing House), Shanghai, 1956.
45. NCNA, February 12, 1958.
46. ECMM, No. 90, July 15, 1957.
47. NCNA, June 29, 1957.
48. ECMM, No. 90, July 15, 1957.
49. Ibid., No. 97, September 3, 1957.
50. Ibid.
51. NCNA, August 1, 1957.
52. Ibid., February 12, 1958.
53. ECMM, No. 52, September 17, 1956.
54. KTHH, May 14, 1956, pp. 1-3.
55. Ibid., No. 18, September 29, 1956, pp. 7-10.
56. CB, No. 442, March 15, 1957.
57. NCNA, July 1, 1957.
58. Ibid., February 13, 1958.
59. CB, No. 405, July 26, 1956.
60. ECMM, No. 36, May 22, 1956.
61. First Five Year Plan.

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62. NCNA, April 24, 1953.
63. Hsin-hua Yueh-pao (New China Monthly), June 1953.
64. TCKT, No. 14, July 29, 1957, pp. 13-14.
65. Ibid.
66. KTHH, No. 16, August 29, 1956.
67. TCKT, No. 12, June 29, 1957, pp. 28-33.
68. First Five Year Plan.
69. NCNA, June 29, 1957.
70. TCKT, No. 1, January 14, 1957, pp. 31-33.
71. KTHH, No. 22, November 29, 1956, pp. 25-33.
72. Supplement to People's China, No. 22, November 16, 1954.
73. TCKT, No. 12, June 29, 1957, pp. 28-33.
74. NCNA, July 1, 1957.

## 5

THE HOUSEHOLD SECTOR  
ACCOUNT

Table IV presents estimates for this sector. Entries appearing in this account, with the exception of personal saving, are discussed in connection with the other accounts. Because direct purchases of consumer services by households are treated as business sales of consumer services, no income originates in the household sector.

The estimates of personal saving in Table IV have been derived as a residual from the other estimates. The figures presented can be compared to alternative estimates of personal saving discussed in the following paragraph. The alternative estimates are given in order to aid in evaluating the discrepancy that appears in the nonagricultural account (Table III, line 31, and Table VI, line 73). The direct estimates of personal saving do not have complete coverage for all forms of personal saving. Most important is the exclusion of an estimate of undistributed profits in nonagricultural nonstate enterprises other than funds financing investment by these enterprises.

The alternative estimates of personal saving have three components. First, agricultural expenditures on capital account less the increase in agricultural loans, i.e., financed out of currently earned income, appear in the household sector in this study, since only state enterprises are treated here as performing business saving. Estimates of

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these gross investment purchases are therefore taken from the items appearing in the agricultural and nonagricultural sectors, and the increase in agricultural loans is subtracted (see page 47). Agricultural business saving is estimated by this method as:

| Year | Million Yuan |
|------|--------------|
| 1950 | 1,020        |
| 1951 | 1,074        |
| 1952 | 1,268        |
| 1953 | 1,553        |
| 1954 | 1,906        |
| 1955 | 1,979        |
| 1956 | - 123        |
| 1957 | 2,923        |

Similarly, investment by nonagricultural nonstate enterprises (Table III, line 17, or page 61) is probably financed out of undistributed profits. Second, figures on personal bank deposits are available for all years. Increases in urban and rural deposits were as follows:<sup>1</sup>

| Year | Million Yuan |
|------|--------------|
| 1950 | 122          |
| 1951 | 412          |
| 1952 | 318          |

Increases in urban bank deposits in the years 1953 through 1957 were:<sup>2</sup>

| Year | Million Yuan |
|------|--------------|
| 1953 | 243          |
| 1954 | 188          |
| 1955 | 297          |
| 1956 | 675          |
| 1957 | 465          |

To the figures for 1953 through 1957 are added the figures for increases in rural deposits and credit cooperative funds given on page 47. Third, bond purchases less repayments on principal were estimated to obtain figures for net transfers of funds to the government. The data in Table

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Table IV. THE HOUSEHOLD SECTOR  
1950 - 1957  
(Billion Yuan)

| Line  | 1950  | 1951  | 1952  | 1953  | 1954  | 1955  | 1956  | 1957  | Line |
|---|-------|-------|-------|-------|-------|-------|-------|-------|------|
| <b>Sales</b>                                |       |       |       |       |       |       |       |       |      |
| 33 Agricultural income                      | 28.70 | 36.00 | 39.00 | 43.40 | 43.60 | 46.30 | 49.80 | 53.20 | 33   |
| Nonagricultural income                      |       |       |       |       |       |       |       |       |      |
| 34 Compensation of employees                | 2.76  | 5.74  | 7.51  | 9.67  | 10.28 | 10.90 | 14.68 | 16.51 | 34   |
| 35 Nonagricultural                          | 1.74  | 2.62  | 3.14  | 3.55  | 3.61  | 3.87  | 4.50  | 4.59  | 35   |
| 36 Government                               | 1.13  | 1.63  | 1.77  | 2.32  | 2.73  | 2.94  | 3.43  | 3.72  | 36   |
| 37 Rental income                            | 1.15  | 1.44  | 1.63  | 2.07  | 2.61  | 2.87  | 3.28  | 3.69  | 37   |
| 38 Consumer services                        | 3.57  | 6.78  | 7.49  | 9.76  | 9.43  | 8.42  | 7.45  | 7.08  | 38   |
| 39 Nonstate business enterprises            | .18   | .24   | .57   | .68   | .81   | .70   | .81   | .85   | 39   |
| 40 Government transfer payments             | .01   | .01   | .01   | .01   | .01   | .04   | .06   | .07   | 40   |
| 41 TOTAL PERSONAL INCOME                    | 39.24 | 54.46 | 61.12 | 71.46 | 73.08 | 76.04 | 84.01 | 89.71 | 41   |
| <b>Purchases</b>                            |       |       |       |       |       |       |       |       |      |
| 42 From agricultural business sector        | 17.40 | 22.50 | 21.60 | 24.50 | 23.70 | 25.50 | 28.50 | 29.00 | 42   |
| 43 Home consumption                         | 1.60  | 2.10  | 2.20  | 2.50  | 2.50  | 2.60  | 2.80  | 3.00  | 43   |
| 44 House rent and imputed consumer services | 14.69 | 18.74 | 23.05 | 27.68 | 30.77 | 32.78 | 38.49 | 39.44 | 44   |
| 45 From nonagricultural business sector     | 1.33  | 1.92  | 2.09  | 2.73  | 3.22  | 3.46  | 4.04  | 4.38  | 45   |
| 46 Sales of goods                           | 1.23  | 1.59  | 1.83  | 2.32  | 2.88  | 3.16  | 3.66  | 4.10  | 46   |
| 47 House rent                               | 1.86  | 3.01  | 3.27  | 3.31  | 3.56  | 3.66  | 3.57  | 3.79  | 47   |
| 48 Taxes and nontax receipts                | .68   | 1.79  | 2.01  | 1.89  | 1.66  | 1.00  | 1.01  | 2.03  | 48   |
| 49 Agricultural                             | .09   | .25   | .24   | .33   | .21   | .16   | .17   | .08   | 49   |
| 50 Nonstate nonagricultural                 | .36   | 2.56  | 4.83  | 6.20  | 4.58  | 3.72  | 1.77  | 3.89  | 50   |
| 51 Miscellaneous receipts                   | 39.24 | 54.46 | 61.12 | 71.46 | 73.08 | 76.04 | 84.01 | 89.71 | 51   |
| Personal saving (see note below)            | 1.80  | 1.96  | 2.15  | 2.57  | 3.79  | 3.78  | 2.18  | 5.47  |      |
| 51 TOTAL PURCHASES AND PERSONAL SAVING      | 39.24 | 54.46 | 61.12 | 71.46 | 73.08 | 76.04 | 84.01 | 89.71 | 51   |
| Note: Direct estimate of personal saving    | 1.80  | 1.96  | 2.15  | 2.57  | 3.79  | 3.78  | 2.18  | 5.47  |      |

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Table IV (Concluded)

Sources (lines are numbered consecutively in Tables II through VI):

|                               |  |
|-------------------------------|--|
| Line 33 = line 7.             | Line 43 = line 2.                        |
| Line 34 = line 23.            | Line 44 = line 9.                        |
| Line 35 = line 64.            | Line 45 = line 10.                       |
| Line 36 = line 24.            | Line 46 = line 11.                       |
| Line 37 = line 25.            | Line 47 = line 52.                       |
| Line 38 = line 26.            | Line 48 = line 53.                       |
| Line 39 = line 66.            | Line 49 = line 56.                       |
| Line 40 = line 67.            | Line 50 = sum of lines 33-40 less sum of |
| Line 41 = sum of lines 33-40. | lines 42-49.                             |
| Line 42 = line 1.             | Line 51 = line 41.                       |

II and the estimates of bond repayments on pages 124-125 give the following estimates of net funds transferred to the state by households in connection with the various bond issues:

| Year | Million Yuan |
|------|--------------|
| 1950 | 260          |
| 1951 | - 26         |
| 1952 | - 39         |
| 1953 | - 52         |
| 1954 | 771          |
| 1955 | 471          |
| 1956 | 564          |
| 1957 | 580          |

The direct estimates of personal saving arrived at by totaling these items are shown as Note in Table IV.

## Notes for Chapter 5

1. Hsin-wen Jih-pao (Daily News), Shanghai, March 6, 1955.
2. For 1953-1955, see Chung-kuo Chin-jung (China Finance), Peiping, April 22, 1956, pp. 5-9; for 1956, see SCMP, No. 1537, May 26, 1957; for 1957, see NCNA, December 28, 1957.

## 6

THE GOVERNMENT SECTOR  
ACCOUNT

## Government Receipts

## Taxes

The estimates for the Government Sector presented in Table V are based on (1) budget data on taxes together with estimated breakdown of taxes into direct and indirect taxes, (2) budget data on nontax receipts, and (3) estimated local agricultural taxes and nontax receipts not included in budget figures.

Total revenue from taxes, direct and indirect, for 1950 through 1955 are given in budget data.<sup>1</sup> The breakdown of these taxes among agricultural taxes, taxes paid by private enterprises, by cooperative enterprises, and by joint state-private enterprises are given in another article.<sup>2</sup> Taxes paid by state enterprises are not given in this article but can be derived as a residual from total taxes.

Total tax revenues of 14,088 million yuan and agricultural tax revenues of 2,965 million yuan are given for 1956. No figure is given for tax revenues from either group of nonagricultural enterprises, but percentages of total revenue, including both taxes and miscellaneous receipts from each of these groups of enterprises, are given,<sup>3</sup> and so are planned revenues from each group (in the article cited above for 1950 through 1955).

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Table V. THE GOVERNMENT SECTOR  
1950 - 1957  
(Billion Yuan)

| Line   | 1950   | 1951   |
|--|--------|--------|
| <u>Receipts</u>  |        |        |
| 52 Agricultural taxes and nontax receipts                    | 1.86   | 3.01   |
| 53 Nonagricultural nonstate tax and nontax receipts          | .68    | 1.79   |
| 54 State enterprise taxes                                    | .14    | 1.00   |
| 55 Indirect taxes  | 2.22   | 3.48   |
| <u>Miscellaneous receipts</u>                                |        |        |
| 56 Fees, fines, and miscellaneous services                   | .09    | .25    |
| 57 Sales of labor camp products                              | .10    | .24    |
| 58 Gain or loss from resales of tax collections in kind      | +.27   | -.00   |
| 59 TOTAL CURRENT RECEIPTS                                    | 5.36   | 9.77   |
| <u>Purchases, Transfers, and Surplus</u>                     |        |        |
| <u>Purchases from households (compensation of employees)</u> |        |        |
| 60 Military and supporting personnel                         | .96    | 1.33   |
| 61 Social, cultural, and educational                         | .31    | .56    |
| 62 Administrative  | .37    | .49    |
| 63 Labor camps   | .10    | .24    |
| 64 Total Compensation of Employees                           | (1.74) | (2.62) |
| 65 Purchases from nonagricultural business sector            | 3.20   | 5.55   |
| 66 Transfer payments   | .18    | .24    |
| 67 Interest paid   | .01    | .01    |
| 68 Surplus on current account                                | .23    | 1.35   |
| 69 TOTAL PURCHASES AND SURPLUS                               | 5.36   | 9.77   |

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Table V. THE GOVERNMENT SECTOR  
1950 - 1957  
(Billion Yuan)

| 1952    | 1953    | 1954    | 1955    | 1956    | 1957    | Line |
|---------|---------|---------|---------|---------|---------|------|
| 3.27    | 3.31    | 3.56    | 3.66    | 3.57    | 3.79    | 52   |
| 2.01    | 1.89    | 1.66    | 1.00    | 1.01    | 2.03    | 53   |
| .86     | 2.09    | 2.15    | 2.59    | 2.71    | 2.90    | 54   |
| 4.47    | 5.53    | 6.14    | 6.15    | 7.44    | 7.59    | 55   |
| .24     | .33     | .21     | .16     | .17     | .08     | 56   |
| .24     | .33     | .21     | .17     | .17     | .09     | 57   |
| -.11    | -.33    | -.26    | -.22    | -.32    | -.31    | 58   |
| 10.98   | 13.15   | 13.67   | 13.51   | 14.75   | 16.17   | 59   |
| 1.45    | 1.58    | 1.64    | 1.69    | 1.87    | 1.93    | 60   |
| .96     | 1.11    | 1.21    | 1.41    | 1.78    | 1.88    | 61   |
| .49     | .53     | .55     | .60     | .68     | .69     | 62   |
| .24     | .33     | .21     | .17     | .17     | .09     | 63   |
| ( 3.14) | ( 3.55) | ( 3.61) | ( 3.87) | ( 4.50) | ( 4.59) | 64   |
| 4.78    | 6.65    | 6.79    | 6.86    | 7.30    | 6.59    | 65   |
| .57     | .68     | .81     | .70     | .81     | .85     | 66   |
| .01     | .01     | .01     | .04     | .06     | .07     | 67   |
| 2.48    | 2.26    | 2.45    | 2.04    | 2.08    | 4.07    | 68   |
| 10.98   | 13.15   | 13.67   | 13.51   | 14.75   | 16.17   | 69   |

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Sources (lines are numbered consecutively in Tables II through VI):  
 Line 52-58, see text. Lines 65-67, see text.  
 Line 59 = sum of lines 52-58. Line 68 = line 57 less sum of lines  
 Line 60-63, see text. 60-63, 65-67.  
 Line 64 = sum of lines 60-63. Line 69 = line 59.

These were overfulfilled. All revenue from joint state-private enterprises and cooperatives is in the form of taxes. Assuming the same percentage of overfulfillment of the plan for taxes of private enterprises as for nontax revenues, total nonstate nonagricultural enterprise taxes are estimated as 3,750 million yuan in 1956. State enterprise taxes in 1956, as a residual from total taxes, are therefore estimated to have been 7,373 million yuan.

The 1957 planned figures for joint state-private enterprises and cooperatives and the planned level of taxes and miscellaneous receipts in comparison with the 1956 estimates provide an estimate of taxes for nonstate enterprises planned for 1957 of 4,598 million yuan and for state enterprises of 7,132 million yuan. Since the actual revenue in 1957 from nonagricultural taxes was 6.63 percent higher than the planned figures,<sup>4</sup> actual 1957 taxes from nonstate nonagricultural enterprises are estimated as 4,903 million yuan and from state enterprises as 7,605 million yuan. The revenue from agricultural taxes is given as 2,931 million yuan.

Total tax revenues for the years 1950 through 1957 may be summarized as follows (in million yuan):

| Year | Agricultural Taxes | Total Nonstate Nonagricultural Taxes | Remaining Taxes From State Enterprises |
|------|--------------------|--------------------------------------|--|
| 1950 | 1,910              | 1,910                                | 1,078                                  |
| 1951 | 2,169              | 3,312                                | 2,631                                  |
| 1952 | 2,701              | 3,832                                | 3,235                                  |
| 1953 | 2,711              | 4,222                                | 5,034                                  |
| 1954 | 3,393              | 4,219                                | 5,606                                  |
| 1955 | 3,054              | 3,354                                | 6,337                                  |
| 1956 | 2,965              | 3,750 (est.)                         | 7,373 (est.)                           |
| 1957 | 2,931              | 4,903 (est.)                         | 7,605 (est.)                           |

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From the totals for state and nonstate nonagricultural enterprises estimated indirect taxes are subtracted. An estimate of commodity taxes in 1952 was derived by valuing physical production at estimated wholesale prices and applying the 1952 tax rates by industrial category. Individual handicraft commodity taxes in 1952 are estimated at 600 million yuan. The salt, yarn, and wine commodity taxes are estimated to be 970 million yuan; and, as state trade probably monopolizes these sales, they are estimated to be included under state taxes. The remaining indirect taxes, estimated at 2,100 million yuan, are allocated on the basis of the relative proportion of gross value of output (state, 52.8 percent and nonstate, 47.2 percent), giving total state indirect taxes as 2.08 billion yuan and nonstate enterprises as 1.59 billion yuan. In addition, trade turnover taxes are estimated to average 2 percent of total retail and wholesale turnover of commercial enterprises and, therefore, in 1952 are estimated to have been 300 million yuan for state trade and 500 million yuan for nonstate trade.

For the other years from 1950 through 1957, the 1952 estimate of commodity taxes was projected by the production indexes for the important commodities involved, giving the following figures (at 1952 constant prices): 1950 - 2.11; 1951 - 2.80; 1952 - 3.67; 1953 - 4.50; 1954 - 5.00; 1955 - 5.00; 1956 - 6.10; 1957 - 6.17. Components of tax payments were projected in 1952 prices by the same method. Commodity taxes on yarn, salt, and wine—which are state trade monopolies—are estimated to have been (in million yuan): 1950 - 490; 1951 - 740; 1952 - 970; 1953 - 1,000; 1954 - 1,090; 1955 - 1,190; 1956 - 1,350; 1957 - 1,345. Private indirect taxes paid by individual handicraft are estimated to have been (in million yuan): 1950 - 350; 1951 - 470; 1952 - 600; 1953 - 760; 1954 - 860; 1955 - 800; 1956 - 930; 1957 - 1,020. The remainder of the commodity taxes were allocated in accordance with the gross value of output by state and by non-state ownership, respectively, reported in "The Statistical Tables." The

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wholesale price index (see page 134) was then used to convert these figures into current prices.

Trade turnover taxes were computed for state and nonstate trading enterprises separately, on the basis of an average 2 per cent of wholesale and retail commercial turnover. Direct taxes paid by state and nonstate enterprises, respectively, are estimated as the total for each given above less indirect taxes paid by each. The tax figures thus arrived at are (in million yuan):

| Year | Total Commodity Taxes |          | Trade Turnover Taxes |          | Direct Taxes |          |
|------|-----------------------|----------|----------------------|----------|--------------|----------|
|      | State                 | Nonstate | State                | Nonstate | State        | Nonstate |
| 1950 | 870                   | 900      | 70                   | 380      | 138          | 630      |
| 1951 | 1,480                 | 1,310    | 150                  | 540      | 1,001        | 1,462    |
| 1952 | 2,080                 | 1,590    | 300                  | 500      | 855          | 1,742    |
| 1953 | 2,480                 | 1,960    | 460                  | 630      | 2,094        | 1,632    |
| 1954 | 2,850                 | 2,100    | 610                  | 580      | 2,146        | 1,539    |
| 1955 | 3,060                 | 1,890    | 690                  | 510      | 2,587        | 954      |
| 1956 | 3,790                 | 2,215    | 870                  | 560      | 2,713        | 975      |
| 1957 | 3,805                 | 2,320    | 900                  | 560      | 2,900        | 2,023    |

#### Nontax Receipts

The articles giving budget payments by sector for 1950 through 1955, planned 1956 payments,<sup>5</sup> 1956 final data, 1957 plan data,<sup>6</sup> and the preliminary final 1957 budget<sup>7</sup> provide a rough basis for determining the nature of total budget revenue from "credits, loans, and insurance" and miscellaneous revenue. Table 11 summarizes this information.

Labor camp revenue will be treated as sales to the nonagricultural sector since such sales would be either to business enterprises or already included in retail sales figures as sales to households by the nonagricultural sector. On the basis of rough estimates of fees charged, and on the estimated number of prisoners in labor camps, half of miscellaneous receipts in 1952 are estimated as revenue from labor camps. Labor camp revenue is therefore estimated to be half of the miscellaneous revenue shown in Table 11. Miscellaneous state revenue is not treated as current income,

[107]

since it includes Soviet loans for 1950-1953, intergovernmental fund transfers, and various financial transactions in the nature of business transfers. To simplify the estimates, the "donations" during the "Aid-Korea" campaign in 1951 as well as the large-scale fines imposed in 1952 and perhaps in 1953 are treated as nontax receipts. Although they constitute expenditures for state-supported consumer services, educational, cultural, and health fees are also treated as nontax receipts. Bond payments, however, are treated as personal saving in the household account, and they are not included as nontax receipts.

#### Agricultural Tax and Nontax Receipts (line 52)

Agricultural taxes and nontax receipts as given in Table V are the estimates, valued at farm procurement prices, of tax collections in kind and cash payment of taxes, both those shown in the budget and some local ones not included in the budget, plus miscellaneous receipts from peasants, excluding bond payments. (See Table 11.) The value shown in the budget is not the total value of budgeted agricultural taxes at farm procurement prices; for reasons indicated on page 112, the budget receipts of agricultural taxes paid in kind are not valued at farm procurement prices. Hence the estimate presented here is not derived from the budget.

Total tax collections, including the value equivalent for village fees and taxes, are given in million tons of "fine grain" as: 1952 - 19.4; 1953 - 17.6; 1954 - 19.0; 1955 - 19.0; 1956 - 18.4; and 1957 - 19.7.<sup>8</sup> From data on the ratio of agricultural taxes to total agricultural output of basic food crops and industrial crops in 1950 and 1951<sup>9</sup> and official production figures for basic food crops and industrial crops, the equivalent figure for 1950 is estimated at 14.0 million tons, and for 1951 at 18.4 million tons. The tax payments in "fine grain" were valued in each year at the average price for 1952 of 162.7 yuan derived

[108]

Table 11

BUDGET REVENUE OTHER THAN TAXES AND STATE PROFITS  
AND DEPRECIATION ALLOWANCES, 1950-1957

(Million Yuan)

| Line |  | 1950 | 1951  |
|------|--|------|-------|
| A    | Total "credits, loans, and insurance" and miscellaneous revenue* | 752  | 1,801 |
|      | Of which:  |      |       |
| B    | Bank overdraft or Soviet loans <sup>†</sup>                      | ...  | 268   |
|      | From peasants  |      |       |
| C    | Bonds <sup>‡</sup>   | 18   | ...   |
| D    | Other <sup>§</sup>   | 4    | 138   |
|      | From private industry and commerce                               |      |       |
| E    | Bonds <sup>‡</sup>   | 184  | ...   |
| F    | Other <sup>§</sup>   | 52   | 327   |
|      | State revenue  |      |       |
| G    | Bonds <sup>‡</sup>   | 30   | ...   |
| H    | Other <sup>  </sup>  | 244  | 583   |
|      | Miscellaneous  |      |       |
| I    | Bonds <sup>‡</sup>   | 28   | ...   |
| J    | Other <sup>  </sup>  | 192  | 485   |

\* Budget data. See sources on page 84 above.

<sup>†</sup> The revenue given by incidence does not include a bank overdraft in 1951 of the amount shown or Soviet loans for 1954 through 1957 as shown.<sup>‡</sup> The source used for the period 1950-1955 gives a breakdown of bond payments for the 1950, 1954, and 1955 bond drives. The 1957 breakdown is based on the quotas and assumes the same degree of overfulfillment of quotas for all sectors. (Shih-shih Shou-ts'e [Current Events Handbook], Peiping, No. 2, January 21, 1957, p. 33.) This source gives the 1956 quotas and the actual subscriptions for workers as 274 million yuan. The peasant payments were 138 million yuan in 1956 (CB, No. 469, July 25, 1957, p. 16), and the army subscriptions were 31 million yuan in 1956 (NCNA, June 28, 1956). Urban residents were assumed to have fulfilled their 1956 quota, and 1956 bond payments by private industry and commerce are the residual from total bond payments. The breakdown given for peasants and for private industry and commerce and the inclusion of payments by urban residents under miscellaneous (NCNA, June 29, 1957) present no problems of classification. However, since no bond payments are included under budget revenue from cooperatives or from joint state-private enterprises, it is not certain how bond payments by workers in nonstate

[109]

Table 11

BUDGET REVENUE OTHER THAN TAXES AND STATE PROFITS  
AND DEPRECIATION ALLOWANCES, 1950-1957

(Million Yuan)

|   | 1952  | 1953  | 1954  | 1955  | 1956  | 1957  | Line |
|---|-------|-------|-------|-------|-------|-------|------|
| A | 2,063 | 2,126 | 3,057 | 3,264 | 1,229 | 1,042 | A    |
|   | ...   | ...   | 884   | 1,657 | 117   | 23    | B    |
|   | ...   | ...   | 140   | 135   | 138   | 217   | C    |
|   | 107   | 215   | 74    | 185   | 103   | 84    | D    |
|   | ...   | ...   | 394   | 244   | 139   | 81    | E    |
|   | 264   | 253   | 116   | 43    | 33    | 9     | F    |
|   | ...   | ...   | 246   | 195   | 244   | 260   | G    |
|   | 1,218 | 993   | 727   | 431   | 26    | 102   | H    |
|   | ...   | ...   | 56    | 45    | 86    | 92    | I    |
|   | 474   | 665   | 420   | 329   | 343   | 174   | J    |

enterprises are treated. Payments by workers in cooperative and joint state-private enterprises are estimated to be included under miscellaneous revenue. Based on rough estimates of the labor force, 10 percent of payments by workers, staff, and the military are used for these groups in 1954 and 1955, and 20 percent in 1956 and 1957. Such payments were probably negligible in 1950.

<sup>§</sup> Other revenue for peasants and private industry and commerce probably includes fines, administrative fees, and insurance, and perhaps fees for educational, health, and other services. The 1951 figures largely reflect the "Aid-Korea donations" campaign. The 1952 and, probably, 1953 figures reflect large fines for tax evasion.<sup>||</sup> Soviet loans probably constitute the entire portion of unaccounted state revenue in 1950 through 1952. Total Soviet loans in this period are given as 2,174 million yuan. (NCNA, June 29, 1957.) In 1953, Soviet loans are given as 438 million yuan, leaving 555 million yuan for unaccounted state revenue. Most of such revenue in 1953 through 1955 is said to be connected with state financial expenditures, such as special deposits, local government revolving funds, gold, and other financial reserves.<sup>||</sup> Miscellaneous fees, income from forced labor camps, rental income, and other revenue difficult to classify by source.



[110]

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on page 19 above. The following price index for basic food crops was used to convert these into current prices:<sup>10</sup> 1950-81.5; 1951-95.9; 1952-100.0; 1953-108.0. For 1956, the index is given as 115.7.<sup>11</sup>

For 1954 and 1955 the same relative price trend is used as that for purchase prices for all farm products (see pages 25-26). This yields a price index for 1954 of 112.9 and for 1955 of 112.3. The prices for basic food crops in 1957 are estimated to have been the same as in 1956, since price rises are discussed for other products but not for basic food crops. Applying this index to the value equivalent for each year in 1952 prices, yields estimates of total agricultural budgeted and nonbudgeted taxes and village fees at average farm procurement prices. To obtain estimates of total agricultural taxes and nontax receipts (Table V, line 52), it is necessary to add to the figures given above the miscellaneous receipts, exclusive of bond payments, paid by peasants as they appear in Table 11. The estimates are (in billion yuan):

#### Agricultural and Nontax Receipts

| Year | Taxes and Village Fees | Miscellaneous Receipts (Excluding Bond Payments) | Total |
|------|------------------------|--|-------|
| 1950 | 1.86                   | .00  | 1.86  |
| 1951 | 2.87                   | .14  | 3.01  |
| 1952 | 3.16                   | .11  | 3.27  |
| 1953 | 3.09                   | .22  | 3.31  |
| 1954 | 3.49                   | .07  | 3.56  |
| 1955 | 3.47                   | .19  | 3.66  |
| 1956 | 3.47                   | .10  | 3.57  |
| 1957 | 3.71                   | .08  | 3.79  |

#### Nonagricultural Nonstate Tax and Nontax Receipts (line 53)

Taxes and nontax receipts from nonagricultural nonstate enterprises

[111]

are the total direct taxes estimated on page 106 above and miscellaneous receipts from private industry and commerce excluding bond payments as given in Table 11. The estimates are:

| Year | Billion Yuan |
|------|--------------|
| 1950 | .68          |
| 1951 | 1.79         |
| 1952 | 2.01         |
| 1953 | 1.89         |
| 1954 | 1.66         |
| 1955 | 1.00         |
| 1956 | 1.01         |
| 1957 | 2.03         |

#### State Enterprise Taxes (line 54)

State enterprise direct taxes are shown on page 106 above.

#### Indirect Taxes (line 55)

Components of indirect taxes are as estimated on page 106, and the totals appear in Table V, line 55.

#### Miscellaneous Receipts

The miscellaneous receipts excluding bond payments as shown in Table V are divided in half between receipts from sales of output of labor camps (line 57) and miscellaneous fees for educational, health, and cultural services (line 56). The latter are treated as miscellaneous fees received from households.

#### Gain or Loss from Resales of Tax Collections in Kind (line 58)

In the sector accounts, tax collections in kind are treated as sales by the agricultural sector to tax organs in the nonagricultural sector and their imputed value as received by the agricultural sector and immediately paid to the government as taxes. These collections in kind

[112]

by tax organs are then treated as resold to the nonagricultural sector at the time when turned over by the tax organs to commercial departments, the military establishment, other government organs, or state enterprises. Budget figures for agricultural taxes represent not the value of collections in kind when received as taxes but the income received when they are used. The valuation for budget purposes placed on such resales of tax collections in kind is probably different in most of the years concerned from the average value of these collections at farm procurement prices. The budget receipts differ from the farm procurement value not only for this reason but also because they reflect only the value of tax collections in kind used up in the calendar year and not the value of changes in stocks during the year. There is usually a lag of roughly a year between the variations in tax collections and corresponding variations in budget figures for income received from tax collections in kind.<sup>12</sup> (The two of course are not equal.)

In the following sections, estimates are first made of the value of resales of tax collections in kind for each year, and then for the gain or loss from such resales due to the tax valuation placed on these collections for budget purposes and for changes in stocks.

#### 1. Government Receipts from Resales of Tax Collections in Kind

The value of resales by government tax organs to nonagricultural business enterprises is estimated by adding to budget figures for agricultural taxes, the estimated value of nonbudgeted taxes and village fees, and subtracting estimates of the amount of total budgeted and nonbudgeted taxes paid in cash. In 1952, 10 per cent of taxes were reportedly paid in cash<sup>13</sup> and 90 per cent of taxes were collected in kind; and in the absence of specific data on other years this proportion is assumed for all the years from 1950 through 1957.

[113]

The share of agricultural taxes and village fees not included in the budget is estimated as follows. Data for total principal plus local taxes and fees in terms of "fine grain" are given on page 110. Principal taxes are given as 17.25 million tons of "fine grain" in 1955<sup>14</sup> and are estimated to have been at the same level in 1954. They are given as 17.6 million tons in 1952, 16.0 million tons in 1956,<sup>15</sup> and 17.4 million tons in 1957.<sup>16</sup> Local surtaxes and village supplementary taxes are therefore estimated as 1.8 million tons in 1952, 1.8 million tons in 1954 and 1955, and 2.4 million tons in 1956.<sup>17</sup> In 1957 they are reported as 2.3 million tons. The ratio of these local and nonbudgeted taxes to total taxes in 1952, 1954, and 1955 is about 9.2 per cent. By use of this ratio, estimates are derived for the other years. They are: 1.3 million tons in 1950; 1.7 million tons in 1951; and 1.6 million tons in 1953. The price index for farm procurement prices (see page 110) is used to arrive at the value of these taxes. Some of these taxes, however, are probably included in budget figures, but they are indicative of trends in local nonbudgeted taxes. Local nonbudgeted taxes are given as 299 million yuan in 1956.<sup>18</sup> Using the value series thus derived as an index, nonbudgeted agricultural taxes are estimated as:

| Year | Million Yuan |
|------|--------------|
| 1950 | 110          |
| 1951 | 175          |
| 1952 | 195          |
| 1953 | 185          |
| 1954 | 215          |
| 1955 | 210          |
| 1956 | 299          |
| 1957 | 290          |

Approximations of government receipts from resales of tax collections in kind are derived from these estimates and budget data on agricultural taxes as shown in Table 12.

[114]

Table 12  
GOVERNMENT RECEIPTS FROM RESALES OF TAX  
COLLECTIONS IN KIND, 1950-1957

| Line  | 1950  | 1951  |
|---|-------|-------|
| A Budget revenue  | 1,910 | 2,169 |
| B Plus: Total nonbudgeted revenue                             | 110   | 175   |
| C Less: Budgeted and nonbudgeted money payments               | 186   | 287   |
| D Equals: Receipts from resales to the nonagricultural sector | 1,834 | 2,057 |

Note: Budget revenue ( $B_1$ ) equals government sales ( $S_1$ ) plus money tax payments ( $M_1$ ). Nonbudget revenue (NB) equals local government sales ( $S_2$ ) plus local village fees ( $M_2$ ). It is desired to determine ( $S_1$  plus  $S_2$ ).  $B_1$  plus NB equals ( $M_1$  plus  $M_2$ ) plus ( $S_1$  plus  $S_2$ ). Therefore, ( $S_1$  plus  $S_2$ ) equals B plus NB minus ( $M_1$  plus  $M_2$ ).

## 2. Gain or Loss from Resales and Changes in Stocks

As has been noted, the differences between the value placed on tax collections in kind and the value of sales to the nonagricultural sector are due to two factors: (1) increases or decreases in stocks of tax collections in kind and (2) differences between the valuation for tax purposes placed on sales of collections in kind and the estimated average procurement prices for the same commodities when sold. Increases or decreases in stocks of tax collections in kind should be treated as one instance of increases or decreases in inventories and should appear as sales, plus or minus, on capital account. The difference due to a different valuation on tax collections in kind from farm procurement prices represents either an overstatement or understatement of profits of commercial enterprises receiving these commodities or a corresponding overstatement or understatement of budget expenditures of government organs which furnish pay and allowances consisting of basic food crops in kind.

[115]

Table 12  
GOVERNMENT RECEIPTS FROM RESALES OF TAX  
COLLECTIONS IN KIND, 1950-1957

| 1952  | 1953  | 1954  | 1955  | 1956  | 1957  | Line |
|-------|-------|-------|-------|-------|-------|------|
| 2,701 | 2,711 | 3,393 | 3,054 | 2,965 | 2,931 | A    |
| 195   | 185   | 215   | 210   | 299   | 290   | B    |
| 316   | 309   | 349   | 347   | 347   | 371   | C    |
| 2,580 | 2,587 | 3,259 | 2,917 | 2,917 | 2,850 | D    |

### Sources:

Line A: Budget revenue from agricultural taxes listed on pages 104 and 113.  
Line B: See text, pages 110 and 112.  
Line C: Ten per cent of total tax payments. See text, pages 110 and 112.

There also may be discrepancies in the estimates due to errors in estimating the ratio of taxes that are taken into the budget to non-budgeted revenue or of cash payments to collections in kind. These will appear as part of the over-all discrepancy in the nonagricultural sector account.

Although the data for estimating the components are subject to a wide margin of error, estimates are made for increases or decreases in stocks of tax collections in kind by first estimating the value at farm procurement prices of the grain sold by the tax organ as shown in Table 13, line B, and subtracting from it the value of tax collections in kind at farm procurement prices. The gain or loss on resale is estimated by subtracting from the resale value (Table 12, line D) the estimated value of the same grain at tax valuation prices. The average tax valuation for collections in kind for 1956 and 1957 is 170 yuan per ton of "fine grain" (or 90 per cent of the estimated average procurement

[116]

Table 13  
GAIN OR LOSS FROM RESALES OF TAX COLLECTIONS  
IN KIND AND CHANGES IN STOCKS, 1950-1957  
(Million Yuan)

| Line   | 1950  | 1951  |
|--|-------|-------|
| A Value of tax collections in kind at average farm procurement prices  | 1,674 | 2,583 |
| B Value of tax collections resold at estimated farm procurement prices | 1,560 | 2,057 |
| C Gain or loss in resales of tax collections in grain                  | + 274 | 0     |
| D Increases or decreases in stocks                                     | + 114 | + 526 |

## Sources:

Line A: Ninety per cent of total agricultural taxes, which are stated on page 110. For explanation of the 10 per cent deduction, see page 112.  
Line B: Obtained by applying to line D of Table 12, the ratio of farm

price in 1956 and 1957); no change in prices is mentioned in comparisons made to agricultural tax revenue in 1955.<sup>19</sup> In the light of budget discussions of revenue from agricultural taxes, this tax valuation probably was used for 1954 as well. The 1954 valuation represented a revision upward, compared with 1953,<sup>20</sup> which can be roughly estimated as 8 per cent. Therefore, the average tax valuation for 1953 is estimated to be below the 1954 value by this margin—or at about the average procurement price for 1951. Budget figures for revenue from tax collections in kind indicate that the 1950-1953 tax valuation was held constant at the 1951 level for procurement prices, with significant differences in the 1950 budget data as reported in 1953 and earlier announcements.

Table 13 presents the estimated gain or loss in government revenue due to the tax valuation placed on tax collections in kind and the resulting estimates for changes in stocks of tax collections in kind. The

[117]

Table 13  
GAIN OR LOSS FROM RESALES OF TAX COLLECTIONS  
IN KIND AND CHANGES IN STOCKS, 1950-1957  
(Million Yuan)

| 1952  | 1953  | 1954  | 1955  | 1956  | 1957  | Line |
|-------|-------|-------|-------|-------|-------|------|
| 2,844 | 2,781 | 3,141 | 3,123 | 3,123 | 3,339 | A    |
| 2,693 | 2,913 | 3,523 | 3,137 | 3,234 | 3,160 | B    |
| - 113 | - 326 | - 264 | - 220 | - 317 | - 310 | C    |
| + 151 | - 132 | - 382 | - 14  | - 111 | + 179 | D    |

procurement prices to tax valuation prices in each year. See pages 110 and 115-116.  
Line C: Line D, Table 12, minus line B, Table 13.  
Line D: Line A minus line B.

estimates of increases or decreases in stocks are included under the estimates for changes in inventories (Table III, line 18). The estimates for gain or loss from resales of tax collections in grain are given in Table V, line 58.

## Government Purchases of Goods and Services

Government purchases are estimated from budget totals for expenditures. Compensation of employees is estimated. From the remaining expenditures, subtractions and allocations are made to complete the estimates in the government account.

## Compensation of Employees

## 1. Military Personnel (Table V, line 60)

It is possible to give only the sketchiest estimate of compensation of military personnel. The regular armed forces, including army, navy,

[118]

and air forces, are estimated to have included 2.54 million men at the end of 1950.<sup>21</sup> A speech by Peng Te-huai in September 1956 gives the number of officers and men in the "Liberation Army" as 2.7 million less than the highest number at the time of "Liberation."<sup>22</sup> The size of the army at that time is reported to have been 5 million men,<sup>23</sup> which gives a figure of 2.3 million for the regular armed forces in 1956. Since it is probable that the reduction of forces took place gradually as the reorganization of the armed forces progressed, a reduction of 40,000 troops a year is used for the years 1951 through 1955, giving a figure of 2.50 for 1951, of 2.46 for 1952, of 2.42 for 1953, of 2.38 for 1954, and of 2.34 million men for 1955. In addition to the regular armed forces, the *China Handbook* gives a figure of 2.45 million men as reserve troops and security forces.<sup>24</sup> These forces are kept in the same proportion to regular armed forces as in 1950, since the same degree of reorganization and re-equipment is likely for these troops as for the regular troops. On the basis of the estimates given above, and assuming the same reduction in 1957 as in 1956, the number of military personnel is estimated to have been:

| Year | Million Men |
|------|-------------|
| 1950 | 4.99        |
| 1951 | 4.91        |
| 1952 | 4.83        |
| 1953 | 4.75        |
| 1954 | 4.67        |
| 1955 | 4.60        |
| 1956 | 4.52        |
| 1957 | 4.44        |

Supporting civilian personnel, primarily coolie labor, are paid for out of budgeted military expenditures but are not classified as workers

or clerical staff. Such personnel include those engaged in military construction work. On the basis of a rough estimate of the labor requirements, their numbers are assumed to be one-third those of the total regular and security troops. Considering both the much higher pay and allowances for officers and the adult requirements for food and clothing, the average pay and allowances for military personnel are taken to be the same as the average per capita expenditures of middle-income families. On the basis of cost-of-living data for Canton and Foochow,<sup>25</sup> such average per capita expenditures are estimated at about 200 yuan a year in 1952, giving military pay and allowances of 970 million yuan. Half of this income is estimated to be imputed income in kind. Supporting personnel at the same average wage as coolies and handicraft personnel, as in the estimate of compensation of employees above (see page 77), are estimated to receive an average pay of 300 yuan a year, or total income of 480 million yuan. The sum of these two items is the estimate for 1952 presented in Table V, line 58.

The index of average money wages for the socialized sector for 1952 through 1955 and that for industrial workers for 1950 through 1952 (see page 134 below) were applied to the total estimated wages in 1952. Some increases probably occurred in average wages after 1952, because of modernization of the military forces, and to allow for the relative increase in specialists and in naval and air personnel, an annual increase of 1 per cent in average pay is assumed. Compensation of military personnel was thus estimated. Wages of supporting personnel are estimated to be the same proportion of compensation of military personnel as in 1952, or 50 per cent. The estimated figures are (in billion yuan):

[120]

| Year | Military Personnel | Supporting Personnel | Total (Line 60) |
|------|--------------------|----------------------|-----------------|
| 1950 | .64                | .32                  | .96             |
| 1951 | .89                | .44                  | 1.33            |
| 1952 | .97                | .48                  | 1.45            |
| 1953 | 1.06               | .52                  | 1.58            |
| 1954 | 1.10               | .54                  | 1.64            |
| 1955 | 1.13               | .56                  | 1.69            |
| 1956 | 1.21               | .66                  | 1.87            |
| 1957 | 1.29               | .64                  | 1.93            |

## 2. Other Personnel

The wages given on line 61 for social, cultural, and educational workers for 1950 through 1957 include those estimated on page 72 plus fringe benefits, estimated at 8 per cent of money wages, as for the state economic enterprises. Wages for administrative personnel (line 62) are also those estimated on page 72 above, plus 8 per cent for fringe benefits. Labor camp imputed wages (line 63) are assumed to be equivalent to total sales of labor camp production to the nonagricultural sector given in Table V, line 56.

## Purchases of Goods and Business Services

Since economic construction expenditures are treated in this study as state business transactions in the nonagricultural business sector, these expenditures are excluded here. For the years 1950 through 1957, budget figures are reported for total military expenditures, expenditures for social, cultural, and educational purposes, and administrative and "other" expenditures. Nonbudgeted village expenditures in farm areas are assumed to equal nonbudgeted taxes and village fees paid by farmers (see page 113). These data are (in million yuan):

[121]

|   | 1950  | 1951  | 1952  | 1953   | 1954   | 1955   | 1956   | 1957   |
|---|-------|-------|-------|--------|--------|--------|--------|--------|
| Total military expenditures                                 | 2,827 | 5,061 | 4,371 | 5,680  | 5,814  | 6,500  | 6,117  | 5,509  |
| Expenditures for social, cultural, and educational purposes | 755   | 1,344 | 2,280 | 3,361  | 3,461  | 3,189  | 4,596  | 4,739  |
| Total administrative expenditures                           | 1,313 | 1,746 | 1,727 | 2,118  | 2,162  | 2,154  | 2,660  | 2,322  |
| Other expenditures  | 177   | 241   | 783   | 1,683  | 838    | 3,742  | 1,287  | 3,118  |
| Nonbudgeted taxes and village fees                          | 110   | 175   | 195   | 185    | 215    | 210    | 299    | 290    |
| TOTAL   | 5,182 | 8,567 | 9,356 | 13,027 | 12,490 | 15,795 | 14,959 | 15,978 |

In order to estimate government purchases of goods and business services, employee compensation and also other items must be subtracted from the total shown above. These other subtractions are (1) construction expenditures for culture, education, and health which are included under gross investment expenditures for the nonagricultural sector, (2) transfer payments, and (3) most expenditures under the miscellaneous categories of the budget.

Completed capital construction expenditures for culture, education, and health are given in "The Statistical Tables" for 1952 through 1955. An increase of 77 per cent is indicated for 1956.<sup>27</sup> Expenditures for inventories of construction materials and related investment expenditures other than completed investment are estimated to be negligible, since most of the work would be done by the Ministry of Construction or on contract. The 1956 ratio of these expenditures to completed capital

construction expenditures within state plans is assumed for 1957. The 1952 ratio to state investment expenditures is used for 1950 and 1951 (see page 55). The estimates are:

| Year | Million Yuan |
|------|--------------|
| 1950 | 60           |
| 1951 | 120          |
| 1952 | 320          |
| 1953 | 767          |
| 1954 | 771          |
| 1955 | 689          |
| 1956 | 1,220        |
| 1957 | 1,025        |

Transfer payments as estimated below are also subtracted. The "other" category of the budget as given above includes many expenditures not classified as current purchases, such as budget transfers to the banking system and to local government revolving funds and debt repayments and foreign aid, which in earlier years are not listed separately; but expenditures by the financial departments for wages of tax organs and other current purchases in connection with tax collections are also included in the "other" category. For 1950 and 1951 all expenditures in this category, except payments on domestic bonds (see page 124 below), are estimated to be current purchases. For 1952 through 1954, current purchases under this heading are assumed to bear the same ratio to total taxes collected as in 1951. Current purchases from the "other" category are therefore estimated (in million yuan) as: 1950-171; 1951-202; 1952-240; 1953-300; 1954-330. Miscellaneous expenditures of the type estimated are specified as 63 million yuan in 1955 and 161 million yuan in 1956, indicating either a change in economic organization or overestimates of the figures for 1950 through 1954. The figure for 1957 is 199 million yuan. The

"other" category of budget expenditures is therefore broken down as follows:

| Year | "Other" Budget Expenditures |                            |
|------|-----------------------------|----------------------------|
|      | For Goods and Services      | Not for Goods and Services |
| 1950 | 171                         | 6                          |
| 1951 | 202                         | 39                         |
| 1952 | 240                         | 543                        |
| 1953 | 300                         | 1,383                      |
| 1954 | 330                         | 508                        |
| 1955 | 63                          | 3,679                      |
| 1956 | 161                         | 1,126                      |
| 1957 | 199                         | 2,919                      |

After making these subtractions from total budget expenditures, the resulting estimates for government purchases of goods and services, as they appear in line 65, are:

| Year | Billion Yuan |
|------|--------------|
| 1950 | 3.20         |
| 1951 | 5.55         |
| 1952 | 4.78         |
| 1953 | 6.65         |
| 1954 | 6.79         |
| 1955 | 6.86         |
| 1956 | 7.30         |
| 1957 | 6.59         |

#### Transfer Payments

Total social relief and special benefits are given in budget data.<sup>28</sup> In addition, on the basis of typical educational allowances for 1952, student subsidies are estimated to have been 120 million yuan in 1952, or 9.3 per cent of educational expenditures.<sup>29</sup> This percentage was used to derive figures for student subsidies for the other years. These payments are as follows (in million yuan):

[124]

| Year | Total Social Relief | Student Subsidies | Total |
|------|---------------------|-------------------|-------|
| 1950 | 132                 | 46                | 178   |
| 1951 | 157                 | 86                | 243   |
| 1952 | 451                 | 120               | 571   |
| 1953 | 485                 | 194               | 679   |
| 1954 | 618                 | 196               | 814   |
| 1955 | 511                 | 187               | 698   |
| 1956 | 568                 | 245               | 813   |
| 1957 | 591                 | 263               | 854   |

The total figure for each year is given in Table V, line 66, in billion yuan.

#### Interest Paid

Based on the 1950 budget plan,<sup>30</sup> interest paid on Northeast Bonds is estimated to have been 6 million yuan. The size of the 1950 bond drive, as shown in Table 11, was 260 million yuan. Based on the repayment schedule for the 1950 bond drive,<sup>31</sup> repayments on principal for the 1950 bonds were (in million yuan): 1951-26, 1952-39, 1953-52; and interest paid was: 1951-13, 1952-12, 1953-10. Interest and repayment in 1954 totaled 72 million yuan, and in 1955 the total was set at 186 million yuan.<sup>32</sup> Of the 1954 payments, 7 million yuan is estimated to have been interest paid and 65 million yuan repayments on principal. The 1950 schedule of repayments and the 1954 bond schedule<sup>33</sup> indicate that of the 1955 payments 38 million was interest and 148 million was repayment on principal. Total interest payments for 1955 through 1957 are given as 168 million yuan and repayments on principal as 260 million yuan.<sup>34</sup> On the basis of bond schedules, interest for 1956 is estimated at 60 million yuan in 1956 and 70 million yuan in 1957. Bond schedules would indicate that combined repayments on principal in 1956 and 1957 should have been 234 million yuan, but

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repayments calculated as a residual were 112 million yuan in the two years, indicating that many repayments on principal were postponed and not actually paid. On the basis of the proportion of actual repayments to scheduled repayments, bond repayments on principal are estimated as 43 million yuan in 1956 and 70 million yuan in 1957. Interest paid is therefore estimated to have been as follows (line 67):

| Year | Billion Yuan |
|------|--------------|
| 1950 | .01          |
| 1951 | .01          |
| 1952 | .01          |
| 1953 | .01          |
| 1954 | .01          |
| 1955 | .04          |
| 1956 | .06          |
| 1957 | .07          |

#### Surplus on Current Account

The surplus is the residual after subtracting total purchases and payments from total receipts.

#### Notes for Chapter 6

1. Ta Kung Pao, Tientsin, January 27, 1955 (budgets for 1950-1953); CB, No. 336, July 14, 1955 (budget for 1954); and *ibid.*, No. 392, March 26, 1956 (budget for 1955).
2. TCKT, No. 12, June 29, 1957, pp. 28-33.
3. ECMM, No. 8, August 5, 1957.
4. NCNA, February 12, 1958.
5. TCKT, No. 12, June 29, 1957, pp. 28-33.
6. ECMM, No. 8, August 5, 1957.
7. NCNA, February 12, 1958.
8. For 1952-1955, see NCNA, June 15, 1956; for 1956, Ts'ai-cheng (Public Finance), Peiping, No. 8, August 5, 1957, pp. 3-4; and for 1957, NCNA, February 12, 1958.
9. ECMM, No. 66, January 21, 1957, p. 27.
10. Chugoku Keizai Tembo, Tokyo, Vol. II, No. 10 (March 1954).



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11. ECMM, No. 104, October 22, 1957, p. 22.
12. NCNA, June 29, 1957.
13. People's China, No. 8, April 16, 1953, p. 17.
14. NCNA, June 15, 1956.
15. Ts'ai-cheng, Peiping, No. 8, August 5, 1957, pp. 3-4.
16. NCNA, February 12, 1958.
17. Ts'ai-cheng, Peiping, No. 8, August 5, 1957, pp. 3-4.
18. CB, No. 469, July 25, 1957, p. 16.
19. NCNA, June 29, 1957.
20. CB, No. 336, July 14, 1955, p. 2.
21. China Handbook, 1951, China Publishing Co., Taipei, Taiwan, pp. 443-444.
22. CB, No. 422, October 18, 1956, p. 6.
23. The Chinese People's Liberation Army, Foreign Languages Press, Peiping, 1950.
24. China Handbook, 1951, China Publishing Co., Taipei, Taiwan.
25. Ta Kung Pao, Hong Kong, December 17-18, 1952.
26. For 1950-1955, see TCKT, No. 12, June 29, 1957; for 1956, NCNA, January 29, 1957; for 1957, *ibid.*, February 12, 1958.
27. TCKT, No. 4, February 28, 1957, pp. 15-16.
28. For 1950 through 1955, see *ibid.*, No. 12, June 29, 1957; for 1956, NCNA, January 29, 1957; for 1957, *ibid.*, February 12, 1958.
29. *Ibid.*
30. CB, No. 214, October 1, 1952.
31. Ching-chi Chou-pao (Economic Weekly), No. 25, December 22, 1949.
32. Chung-kuo Chin-jung (China Finance), Peiping, March 22, 1955.
33. NCNA, December 10, 1953.
34. *Ibid.*, October 22, 1957.

7

## GROSS SAVING AND INVESTMENT

The estimates are presented in Table VI. All items appearing in this account have already appeared once elsewhere in Tables II through V. Purchases from abroad appear as minus items and with the addition of sales abroad give the figure of net foreign investment in the gross income and product account (Table I).

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[128]

Table VI. GROSS SAVING AND INVESTMENT  
1950 - 1957  
(Billion Yuan)

| Line   | 1950  | 1951  |
|--|-------|-------|
| <u>Saving</u>  |       |       |
| 70 Profits and capital consumption allowances of state enterprises | 1.19  | 3.39  |
| 71 Government surplus on current account                           | .23   | 1.35  |
| 72 Personal saving   | .36   | 2.56  |
| 73 Discrepancy   | +2.45 | -1.36 |
| 74 TOTAL SAVING  | 4.23  | 5.94  |
| <u>Gross Domestic Investment</u>                                   |       |       |
| Agricultural purchases   |       |       |
| 75 From agricultural sector  | .60   | .70   |
| 76 From nonagricultural sector                                     | .50   | .50   |
| Nonagricultural purchases  |       |       |
| 77 State investment  | 1.29  | 2.32  |
| 78 Nonstate investment   | .40   | .50   |
| 79 Increases in inventories  | 1.29  | 2.88  |
| Sales abroad (net foreign investment)                              |       |       |
| 80 Purchases   | -2.12 | -3.50 |
| 81 Sales   | 2.27  | 2.54  |
| 82 TOTAL GROSS INVESTMENT  | 4.23  | 5.94  |

Sources: All items have appeared elsewhere in the accounts, Tables II through V, as follows:  
 Line 70 = line 28.  
 Line 71 = line 68.  
 Line 72 = line 50.  
 Line 73 = line 31.  
 Line 74 = sum of lines 70-73.  
 Line 75 = line 3.

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Table VI. GROSS SAVING AND INVESTMENT  
1950 - 1957  
(Billion Yuan)

| 1952  | 1953  | 1954  | 1955  | 1956  | 1957  | Line |
|-------|-------|-------|-------|-------|-------|------|
| 6.11  | 8.12  | 10.54 | 11.86 | 14.27 | 15.21 | 70   |
| 2.48  | 2.26  | 2.45  | 2.04  | 2.08  | 4.07  | 71   |
| 4.83  | 6.20  | 4.58  | 3.72  | 1.77  | 3.89  | 72   |
| -4.25 | -4.13 | -2.05 | -3.75 | -.98  | +.18  | 73   |
| 9.17  | 12.45 | 15.52 | 13.87 | 17.14 | 23.35 | 74   |
| .80   | .90   | .90   | 1.00  | 1.00  | 1.10  | 75   |
| .70   | .80   | 1.30  | 1.40  | 1.60  | 1.80  | 76   |
| 5.58  | 8.75  | 10.76 | 10.63 | 15.97 | 14.44 | 77   |
| .60   | .70   | .70   | .70   | .50   | .50   | 78   |
| 2.41  | 2.31  | 2.17  | 1.22  | -2.25 | 5.00  | 79   |
| -3.74 | -4.59 | -4.43 | -6.08 | -5.30 | -4.84 | 80   |
| 2.82  | 3.58  | 4.12  | 5.00  | 5.62  | 5.35  | 81   |
| 9.17  | 12.45 | 15.52 | 13.87 | 17.14 | 23.35 | 82   |

Line 76 = line 13.  
 Line 77 = line 16.  
 Line 78 = line 17.  
 Line 79 = line 18.

Line 80 = line 21.  
 Line 81 = line 15.  
 Line 82 = sum of lines 73-79, equal to line 74.

## 8

GROSS NATIONAL PRODUCT AT  
1952 CONSTANT PRICES

Table 14 presents estimates of gross national product in constant 1952 prices. Except for the series which were originally estimated in constant dollars or in physical quantities, they were derived by applying price indexes to the data for final sales in current prices presented in Table I. Their derivation is discussed below.

## Consumption Expenditures

## Imputed Farm Home Consumption and Farm House Rent

The price index for 1950 through 1957 is given on pages 25-26 as follows:

| Year | Index | Year | Index |
|------|-------|------|-------|
| 1950 | 82.2  | 1954 | 113.8 |
| 1951 | 98.4  | 1955 | 113.2 |
| 1952 | 100.0 | 1956 | 116.6 |
| 1953 | 110.1 | 1957 | 120.9 |

The estimates in current prices were based on estimates of total agricultural output in 1952 prices, which were then converted to current prices by use of this price index. Any error in the price index therefore causes error in the estimates in current prices, rather than in the estimates presented in Table 14.

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## Retail Sales and Nonagricultural Consumption Expenditures

A price index for sales of nonagricultural goods and services was derived from figures on average money wages and average real wages for industrial workers for 1950 and for the socialized sector for 1952 through 1957. Data for 1951 are missing (see Table 15). The index secured in this way shows greater price increases than the wholesale price index available in "The Statistical Tables" and than some reports of changes in retail prices from 1952 through 1956. The 1951 retail price index was computed by dividing an index of retail sales from 1950 through 1952 by an index of unit volume sales in 1952 prices. This price index is probably based on the cost of living in urban areas and may not be representative of prices for retail sales by farmers in market towns, which are at free market prices, or of direct sales by individual handicraftsmen outside commercial channels.\* For these sales the index of farm procurement prices is used.

## Government Purchases

Government expenditures for wages for administrative, social, cultural, and educational workers and military personnel are deflated by the index of average money wages of industrial workers from 1950

\* The value of direct sales by farmers, peddlers, and individual handicraftsmen to peasants can be derived from "The Statistical Table" for the years 1950 and 1952 through 1955. For 1951 the same ratio to total agricultural sales is used as in 1950. The 1956 ratio of direct sales by state and cooperative production units to households to total commercial retail sales is used for 1957. The officially reported and estimated values of direct sales by farmers, peddlers, and individual handicraftsmen for the eight-year period are:

| Year | Million Yuan | Year | Million Yuan |
|------|--------------|------|--------------|
| 1950 | 4,524        | 1954 | 6,268        |
| 1951 | 5,360        | 1955 | 6,291        |
| 1952 | 6,004        | 1956 | 6,340        |
| 1953 | 6,348        | 1957 | 6,410        |

[132]

Table 14  
GROSS NATIONAL PRODUCT OF COMMUNIST CHINA IN  
CONSTANT 1952 PRICES, 1950-1957  
(Billion Yuan)

| Line   | 1950    | 1951    |
|--|---------|---------|
| Consumption expenditures   |         |         |
| A Retail sales and nonagricultural services                            | 20.25   | 23.04   |
| B Imputed farm home consumption and agricultural purchases of services | 23.11   | 25.00   |
| C Total Consumption  | (43.36) | (48.04) |
| D Government purchases   | 6.45    | 8.69    |
| E Net foreign investment   | -0.10   | -1.27   |
| F Gross investment   | 5.31    | 7.39    |
| G TOTAL GROSS NATIONAL PRODUCT   | 55.02   | 62.85   |

through 1952 and by the index of the average money wages of office and factory workers exclusive of private enterprises after 1952. This index is shown in Table 15.

Purchases by the government from the nonagricultural sector are deflated by the price index shown in Table 15.

#### Net Foreign Investment

Total sales abroad and total purchases from abroad were deflated by reducing the estimates in yuan to US dollars<sup>1</sup> (see page 52) and then applying indexes for world prices in dollars obtained from indexes of the prices in dollars of total exports and imports, respectively, of countries with roughly the same commodity composition of imports as those of Communist China. For exports, the export price indexes used were those of Burma, Ceylon, India, and Pakistan.<sup>2</sup> For imports, indexes of Ceylon and India were used.<sup>3</sup> The values of sales abroad and of purchases from

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Table 14  
GROSS NATIONAL PRODUCT OF COMMUNIST CHINA IN  
CONSTANT 1952 PRICES, 1950-1957  
(Billion Yuan)

| 1952    | 1953    | 1954    | 1955    | 1956    | 1957    | Line |
|---------|---------|---------|---------|---------|---------|------|
| 26.97   | 30.75   | 34.14   | 36.41   | 41.86   | 42.24   | A    |
| 23.80   | 24.52   | 23.02   | 24.82   | 26.84   | 26.47   | B    |
| (50.77) | (55.27) | (57.16) | (61.23) | (68.70) | (68.71) | C    |
| 7.92    | 9.52    | 9.49    | 9.63    | 10.04   | 9.21    | D    |
| -0.92   | -0.67   | -0.38   | -0.83   | -0.15   | + .03   | E    |
| 10.09   | 12.94   | 15.65   | 15.38   | 18.62   | 24.47   | F    |
| 67.86   | 77.06   | 81.92   | 85.41   | 97.21   | 102.42  | G    |

abroad in constant 1952 yuan, as derived, are (in million yuan):

| Year | Value of<br>Sales Abroad | Value of<br>Purchases<br>From Abroad |
|------|--------------------------|--------------------------------------|
| 1950 | 1,630                    | 1,725                                |
| 1951 | 1,945                    | 3,215                                |
| 1952 | 2,820                    | 3,740                                |
| 1953 | 3,545                    | 4,210                                |
| 1954 | 4,000                    | 4,380                                |
| 1955 | 4,970                    | 5,800                                |
| 1956 | 5,465                    | 5,610                                |
| 1957 | 5,165                    | 5,140                                |

Net foreign investment in 1952 constant prices equals sales minus purchases.

#### Gross Domestic Investment

Imputed farm investment expenditures were deflated by the price index for farm procurement (see page 130). Farm investment purchases from the nonagricultural sector were deflated by the wholesale price

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Table 15

## INDEX OF WAGE TRENDS AND PRICE INDEX\*, 1950-1957

|                    | 1950              | 1951              | 1952  | 1953  | 1954  | 1955  | 1956               | 1957                  |
|--------------------|-------------------|-------------------|-------|-------|-------|-------|--------------------|-----------------------|
| Average money wage | 63.4 <sup>†</sup> | 90.1 <sup>‡</sup> | 100.0 | 110.1 | 114.9 | 119.4 | 133.5 <sup>§</sup> | 139.4 <sup>  </sup>   |
| Real wage          | 73.5 <sup>¶</sup> | n.a.              | 100.0 | 104.3 | 107.5 | 111.3 | 122.0 <sup>§</sup> | (125.1) <sup>  </sup> |
| Price index        | 86.3              | (96.0)            | 100.0 | 105.6 | 106.9 | 107.3 | 109.4              | 111.4 <sup>**</sup>   |

\* Figures for average money wages and real wages for departments, excluding private enterprises, for 1952-1955 are given in an article on wages, KTTH, No. 16, August 29, 1956, p. 11.

<sup>†</sup> Derived from statement of increase in average money wages in ECMM, No. 71, February 25, 1957, p. 13.

<sup>‡</sup> Supplement to People's China, No. 22, November 16, 1954.

<sup>§</sup> Ching-chi Yen-chiu (Economic Research), Peiping, No. 4, August 17, 1957.

<sup>||</sup> The figure for 1957 for average money wage is based on the increase in average money wages for workers under the state plan (NCNA, July 1, 1957), and the real wage is derived from the increase in average money wages and the cost of living index.

<sup>¶</sup> From statement for 1950 through 1952 that real wages rose by 36 per cent. (ECMM, No. 71, February 25, 1957).

<sup>\*\*</sup> The price index for 1950 through 1956 is derived from the indexes of average money wages and real wages. The cost of living index for 1957 is based on a statement that price increases in 1957 would be about 1.8 per cent of urban purchasing power. (TCKT, No. 11, June 14, 1957.)

index. This is reported in "The Statistical Tables" for 1950 through 1955; the 1956 and 1957 indexes are given in a later publication.<sup>4</sup> The whole-sale price index for the eight-year period is:

| Year | Index | Year | Index |
|------|-------|------|-------|
| 1950 | 84.7  | 1954 | 99.1  |
| 1951 | 99.8  | 1955 | 99.05 |
| 1952 | 100.0 | 1956 | 98.5  |
| 1953 | 98.7  | 1957 | 99.3  |

The increase in inventories was also deflated by this price index.

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Table 16

## COMPLETED INVESTMENT EXPENDITURES IN CURRENT AND 1952 CONSTANT PRICES, 1950-1952, 1956

(Billion Yuan)

| Line  | 1950 | 1951 | 1952  | 1956  |
|---|------|------|-------|-------|
| A Completed investment in current prices  | 1.18 | 2.06 | 4.56  | 14.40 |
| Of which:   |      |      |       |       |
| B Income originating in current prices  | .46  | .88  | 1.83  | 4.63  |
| Wages   | .22  | .47  | .91   | 2.55  |
| Other   | .24  | .41  | .92   | 2.08  |
| C Purchases of machinery and equipment and construction materials in current prices       | .72  | 1.18 | 2.73  | 9.77  |
| D Income originating in constant 1952 prices  | .70  | 1.00 | 1.83  | 4.97  |
| E Purchases of machinery and equipment and construction materials in 1952 constant prices | 1.02 | 1.40 | 2.73  | 11.14 |
| F Total completed investment in 1952 constant prices                                      | 1.72 | 2.40 | 4.56  | 16.11 |
| G PRICE INDEX FOR INVESTMENT EXPENDITURES   | 68.6 | 85.8 | 100.0 | 89.4  |

## Sources:

Line A - Figures are for total completed investment both inside and outside state plan, including investment by cooperatives, joint state-private enterprises, and other organizations included under nonstate enterprise investment as estimated in this study. The gross value of all investment is given for 1952 and 1956 (Ching-chi Yen-chiu [Economic Research], Peiping, No. 6, December 17, 1957, pp. 1-11); total such investment for 1953 through 1955 is 26.5 billion yuan; and in the period 1950-1952 it was 7.8 billion yuan (TCKT, No. 17, September 16, 1957). Since completed investment in 1952 was 388 per cent of 1950 investment (KTTH, No. 18, September 29, 1956), 1950 investment is estimated as 1.18 billion yuan and 1951 investment, as a residual, is 2.06 billion yuan.

Line B - The income originating in 1952 prices for 1952 and 1956 is given

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Table 16 (Concluded)

(Ching-chi Yen-chiu [Economic Research], Peiping, No. 6, December 17, 1957). Of the 1952 figure, half of the income originating is assumed to be for wages of building and construction workers and for temporary and corvée labor. The total wage estimates for the other years are based on the same ratio to estimated wages for building and construction workers as in 1952, with the estimates for these workers based on (a) labor force figures for 1950 through 1952 (KTTH, No. 24, December 29, 1956, pp. 31-33), (b) the average wage in 1952 as estimated on pages 70, and 76, and the index for average money wages of industrial workers given in Table 15, and (c) an index for 1956 of wages for construction workers (ECMM, No. 115, January 20, 1957, p. 43) and a figure for labor force in 1956 (TCKT, No. 17, September 14, 1957, pp. 1-3). In 1950 and 1951, 20 per cent is estimated as profits, taxes, and miscellaneous income from construction activities. This is the percentage for 1952.

In 1956 the total income originating in current prices is a residual from the total and an estimate of purchases of machinery and equipment and of construction materials. Purchases of machinery and equipment are given as more than 33 per cent (Chien-she Yueh-k'an [Construction Monthly], Peiping, No. 3, March 1957) of investment under the state plan, valued at 13.99 billion yuan (NCNA, July 1, 1957). Sixty per cent (Chien-she Yueh-k'an, January 3, 1957) of the total value of construction and installation of 8.33 billion yuan (ECMM, No. 115, January 20, 1957, p. 43) is for the purchase of construction materials.

Line C - Except for 1956 (see above), derived by subtracting items in line B from items in line A.

Line D - The source for income originating in constant 1952 prices for 1952 and 1956 has been cited above. For 1950 and 1951, estimated wage payments are deflated by the index for average money wages used, and other income originating is deflated by the average of all other investment costs.

Line E - For 1950 and 1951 purchases of machinery and equipment and construction materials are estimated in 1952 prices by the price index for "hardware" in Shanghai, the 1950 price being 70.9 per cent of 1952 (ibid., No. 93, August 6, 1957, p. 14), and the 1951 figure is extrapolated as 84.2 per cent. A comparison of net output of producer goods and consumer goods for 1955, in both 1952 and 1956 prices (KTTH, No. 24, December 29, 1956, pp. 5-10), suggests that 1956 prices of producer goods were 87.7 per cent of output in 1952 prices, and this ratio is used to estimate the value of 1956 purchases of machinery and equipment and construction materials in 1952 prices.

Line F - The sum of items in lines D and E.

Line G - Derived from the estimates in lines A and F.

Changes in unit costs for construction and purchases of machinery and equipment for completed investment under the state plan are given for 1953 through 1956 as follows<sup>5</sup> (converted to 1953 = 100): 1953 - 100; 1954 - 95.8; 1955 - 90.8; 1956 - 84.9. Table 16 presents estimates

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of unit costs of construction of completed investment, both within and outside the state plan, for 1950 through 1952 and 1956 as follows (1952 = 100): 1950 - 68.6; 1951 - 85.8; 1952 - 100; 1956 - 89.4.

Linking the two indexes we secure the following index for unit costs of construction and purchases of machinery and equipment (1952 = 100):

| Year | Index | Year | Index |
|------|-------|------|-------|
| 1950 | 68.6  | 1954 | 100.9 |
| 1951 | 85.8  | 1955 | 95.6  |
| 1952 | 100.0 | 1956 | 89.4  |
| 1953 | 105.3 |      |       |

The average costs of construction and purchases of machinery and equipment are estimated to be about the same in 1957 as in 1956.

Although this index is for completed investment expenditures, it is believed to be typical of all state and nonagricultural nonstate gross investment expenditures, including expenditures for inventories, general geological surveying, miscellaneous gross investment expenditures for agriculture, and major repairs. Therefore, the estimates of total state and nonstate investment for 1950 through 1957 are deflated by the index given above.

## Notes for Chapter 8

1. For Eastern Economic Review, 1950-1956, passim.
2. United Nations Monthly Bulletin, February 1956.
3. International Monetary Fund, International Financial Statistics, January 1958.
4. Ta Kung Pao, Peiping, September 24, 1957, p. 3.
5. Chi-hua Ching-chi (Planned Economy), Peiping, No. 2, February 9, 1958.

9

# VALUE OF THE GROSS NATIONAL PRODUCT FOR 1952 AND 1955 IN US DOLLARS

The official exchange rate for converting yuan into dollars, using the cross rate with the Hong Kong dollar which prevailed for all of 1952 except December, was roughly 2.10 yuan to 1 US dollar. This conversion rate results in a US dollar value of about 32 billion dollars for the 1952 Chinese GNP. Although a conversion on the basis of the exchange rate avoids the difficulties of direct comparison of value of output in terms of Chinese and US prices, its use can yield erroneous impressions of the value of Chinese output. Therefore, a very crude attempt has been made to compare the output of Communist China and of the United States in terms of their respective price systems. This comparison results in a very wide range of values for Chinese output in dollars. The comparison in itself is useful in interpreting the nature of economic activity in China relative to that in a highly developed industrial economy.

## Methodology

Two direct comparisons of the output of Communist China and of the United States were made: (1) in dollars, after valuing final sales of Chinese output in terms of US prices, and (2) in yuan, after valuing US final sales in terms of Chinese prices. The difficulties in making

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accurate valuations of this kind are apparent. Differences in quality of foods and services are substantial. Many commodities produced in each country and not available in the other could not be valued in the prices of the other. The estimate of the GNP for China does not measure much of the effort that is expended by the individual households, such as making cloth into clothes which are purchased in the United States and are included as part of total output. Even if these difficulties in making accurate price comparisons were removed, the main differences shown in direct price comparisons would remain as a demonstration of fundamental technological differences in production and of fundamental differences in use patterns of two economies so dissimilar as those of China and the United States.

Chinese output, as compared with that of the United States, is characterized by a relative scarcity and high cost of capital goods, a relative abundance and low cost of human labor available as a factor of production for consumer and government services, and low productivity. With low per capita income, Chinese output is concentrated in comparatively few categories with a very limited range of goods. Food consumption predominates, and industrial commodities are of secondary importance. On the other hand, output in the United States is characterized by a relative scarcity and high cost of human labor, a relatively high supply and low cost of machinery and equipment, and high productivity. With high per capita income, the range of commodities provided by the US economy is enormous, and food output is a much smaller proportion of total goods for final use. The cost of labor for consumer and government services is high relative to the cost of commodities.

To illustrate the effects of these differences, suppose that for simplicity we place all goods and services in two classes, those the production

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of which requires the use of much labor and relatively little capital and those the production of which requires the use of much capital and relatively little labor. Of course most products can be produced by alternative methods, using more or less labor relative to capital, but, at any given relative price of capital and labor, it will be advantageous to produce some products by labor-intensive methods and others by capital-intensive methods. In China, capital-intensive goods and services are relatively scarce and expensive as compared to labor-intensive ones, whereas in the United States capital-intensive goods and services are relatively inexpensive and plentiful as compared to labor-intensive ones. Conversely, when US products are priced in yuan, the prices of capital-intensive products are increased considerably relative to those of labor-intensive ones. Hence in the dollar comparison Chinese output is valued far higher relative to US output than in the yuan comparison.

As was suggested in Chapter I, in a sense the comparison in dollars is an evaluation from the American viewpoint and the comparison in yuan an evaluation from the Chinese viewpoint. However, at the relative prices of labor-intensive and capital-intensive Chinese goods which prevail when they are priced in dollars, the Chinese government and people would not produce and use as large a volume of labor-intensive goods as they do in fact produce and use. Instead they would desire and would produce more capital-intensive products (necessarily altering methods of production so as to use somewhat more labor in producing them). The value of these would be less than the value (when priced in dollars) of the labor-intensive goods foregone, and the total dollar value of Chinese output would fall.

Conversely, at the relative prices of capital-intensive and labor-intensive US products which prevail when they are priced in yuan, Americans would desire and would produce more of the labor-intensive

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goods than in fact they do produce and use (altering methods of production so as to use somewhat more capital in producing them). The shift would reduce the yuan value of US output.

Hence either direct comparison gives a somewhat distorted impression of the relative producing power of the two countries. The two comparisons are more extreme than "true" comparisons from the Chinese and American viewpoints, respectively, would be. Nevertheless, the two comparisons give a more meaningful picture of relative production in the two countries than does comparison by means of the exchange rate between the two countries.

Table 17 presents a comparison of expenditures for consumption in Communist China and in the United States for 1952. A comparison of purchases by the governments of Communist China and the United States in 1952 is presented in Table 18, and Table 19 presents a comparison of investment expenditures in China and in the United States in 1952. A summary comparison of the 1952 GNP of China and the United States in yuan and in US dollars is presented in Table 20. A comparison of Communist China's 1955 GNP in US dollars, derived by adjusting the detailed comparison made for 1952 by price indexes, is presented in Table 21.

#### Comparison of Consumption Expenditures

The use of the exchange rate would indicate that in 1952 aggregate consumption in China was about US \$24.2 billion, per capita expenditure being about \$42, on which basis per capita expenditures of US residents would be more than 33 times those of the Chinese. Direct valuation of Chinese consumption expenditures in US prices indicates an aggregate value of \$54 billion and per capita expenditures of \$94, more than double the estimate obtained by using the official exchange rate. On that basis, computed US per capita expenditures are 15 times those in



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Table 17

COMPARISON OF EXPENDITURES FOR CONSUMPTION IN  
COMMUNIST CHINA AND THE UNITED STATES IN 1952

| Expenditures  | Communist China            |                                     |                               |
|---|----------------------------|-------------------------------------|-------------------------------|
|   | Value<br>(Billion<br>Yuan) | Price Ratio<br>(Yuan Per<br>Dollar) | Value<br>(Billion<br>Dollars) |
| Consumer goods  |                            |                                     |                               |
| Imputed value of farm home<br>consumption*            | 21.60                      | 1.00                                | 21.60                         |
| Other sales   | 23.05                      | 1.10                                | 20.95                         |
| Total Consumer Goods                                  | (44.65)                    |                                     | (42.55)                       |
| Consumer services                                     |                            |                                     |                               |
| House rent  | 3.84                       | .48                                 | 8.00                          |
| Other   | 2.28                       | .68                                 | 3.35                          |
| TOTAL   | 50.77                      | .94                                 | 53.90                         |
| Chinese expenditures as a per cent of US expenditures |                            |                                     | 24.7                          |

\* Less imputed value of services estimated at 2.20 billion yuan.

Table 18

COMPARISON OF PURCHASES BY THE GOVERNMENTS OF  
COMMUNIST CHINA AND THE UNITED STATES IN 1952

| Expenditures  | Communist China            |                                     |                               |
|---|----------------------------|-------------------------------------|-------------------------------|
|   | Value<br>(Million<br>Yuan) | Price Ratio<br>(Yuan Per<br>Dollar) | Value<br>(Million<br>Dollars) |
| Goods and services                                    | 4.78                       | 2.28                                | 2.10                          |
| Compensation of employees                             |                            |                                     |                               |
| Military  | 1.45                       | .30                                 | 4.83                          |
| Other   | 1.69                       | .28                                 | 6.04                          |
| TOTAL   | 7.92                       | .61                                 | 12.97                         |
| Chinese expenditures as a per cent of US expenditures |                            |                                     | 16.8                          |

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Table 17

COMPARISON OF EXPENDITURES FOR CONSUMPTION IN  
COMMUNIST CHINA AND THE UNITED STATES IN 1952

| Expenditures  | United States                 |                                     |                            |
|---|-------------------------------|-------------------------------------|----------------------------|
|   | Value<br>(Billion<br>Dollars) | Price Ratio<br>(Yuan Per<br>Dollar) | Value<br>(Billion<br>Yuan) |
| Consumer goods  |                               |                                     |                            |
| Food  | 69.973                        | 3.16                                | 221.115                    |
| Other   | 72.854                        | 6.47                                | 471.365                    |
| Total Consumer Goods                                  | (142.827)                     | 4.85                                | (692.480)                  |
| Consumer services                                     | 35.034                        | 0.47                                | 16.465                     |
| Rent and personal business charges                    | 40.563                        | 1.08                                | 43.810                     |
| TOTAL   | 218.424                       | 3.45                                | 752.755                    |
| Chinese expenditures as a per cent of US expenditures |                               |                                     | 6.7                        |

Table 18

COMPARISON OF PURCHASES BY THE GOVERNMENTS OF  
COMMUNIST CHINA AND THE UNITED STATES IN 1952

| Expenditures  | United States                 |                                     |                            |
|---|-------------------------------|-------------------------------------|----------------------------|
|   | Value<br>(Million<br>Dollars) | Price Ratio<br>(Yuan Per<br>Dollar) | Value<br>(Million<br>Yuan) |
| Administrative  |                               |                                     |                            |
| Construction  | 7.827                         | 3.89                                | 30.447                     |
| Goods   | 5.067                         | 2.58                                | 13.073                     |
| Wages   | 15.785                        | .28                                 | 4.420                      |
| Military  |                               |                                     |                            |
| Goods   | 33.313                        | 5.44                                | 181.223                    |
| Wages   |                               |                                     |                            |
| Military  | 11.196                        | .30                                 | 3.360                      |
| Civilian  | 3.912                         | .28                                 | 1.118                      |
| TOTAL   | 77.180                        | 3.03                                | 233.641                    |
| Chinese expenditures as a per cent of US expenditures |                               |                                     | 3.4                        |

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Table 19

## COMPARISON OF INVESTMENT EXPENDITURES BY COMMUNIST CHINA AND THE UNITED STATES IN 1952

| Investment in:  | Communist China            |                                     |                               |
|---|----------------------------|-------------------------------------|-------------------------------|
|   | Value<br>(Million<br>Yuan) | Price Ratio<br>(Yuan Per<br>Dollar) | Value<br>(Million<br>Dollars) |
| Machinery and equipment*                              | 1.53                       | 5.10                                | .300                          |
| Construction†   | 5.45                       | 1.54                                | 3.540                         |
| Agriculture   | .70                        | 5.10                                | .135                          |
| Inventories   | 2.41                       | 2.30                                | 1.045                         |
| TOTAL   | 10.09                      | 2.00                                | 5.020                         |
| Chinese expenditures as a per cent of US expenditures |                            |                                     | 9.9                           |

\*25.3 per cent of completed investment plus major repairs.

†Plus 800 million yuan imputed value of farm investment.

China. When consumption expenditures in the United States in 1952 are valued in yuan, however, the high cost of gasoline, durable goods, and of many food items not standard in the Chinese diet result in a yuan-dollar ratio almost four times higher than that derived for the Chinese product mix. Thus US residents in China would need to spend 4,830 yuan per capita to duplicate the average per capita consumption expenditures in the United States. This is 55 times the average Chinese expenditures of 88 yuan per capita.

Purchases of services by Chinese consumers loom much larger within total consumption when consumer goods and services in both countries are priced in dollars than when both are priced in yuan, since this output is labor-intensive. When valued in dollars, the Chinese output of services, not including government communal service, is about 21 per cent of consumption as compared with 12 per cent when valued in yuan. On the other hand, in the United States, output of services in dollars is about 35 per cent of consumption expenditures; in yuan the percentage is 8 per cent.

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Table 19

## COMPARISON OF INVESTMENT EXPENDITURES BY COMMUNIST CHINA AND THE UNITED STATES IN 1952

| Investment in:  | United States                 |                                     |                            |
|---|-------------------------------|-------------------------------------|----------------------------|
|   | Value<br>(Million<br>Dollars) | Price Ratio<br>(Yuan Per<br>Dollar) | Value<br>(Million<br>Yuan) |
| Equipment   | 23.307                        | 5.10                                | 118.865                    |
| Construction  | 23.723                        | 1.85                                | 43.885                     |
| Inventories   | 3.625                         | 5.50                                | 19.940                     |
| TOTAL   | 50.655                        | 3.61                                | 182.690                    |
| Chinese expenditures as a per cent of US expenditures |                               |                                     | 5.5                        |

## Comparison of Government Purchases

The dollar valuation of Chinese Communist Yuan expenditures for government and military services also shows a relatively low value for commodity purchases and a high value for manpower purchases in the form of wage expenditures. In dollar value, Chinese purchases are 17 per cent of US expenditures. When US expenditures are valued in yuan, however, the expenditures of the Chinese government are only 3 per cent of those of the United States

## Comparison of Investment Expenditures

Chinese investment expenditures constitute 9.9 per cent of those in the United States when both are priced in dollars, but only 5.5 per cent when both are priced in yuan. About half of the expenditures for investment in the United States, excluding increases in inventories, are for machinery and equipment, whereas in Communist China expenditures for equipment in 1952 were about 29 per cent of such investment. By

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Table 20  
COMPARATIVE VALUE OF CHINESE AND US GROSS  
NATIONAL PRODUCT IN 1952

|                                   | Comparison in Dollar Values         |   |   |
|-----------------------------------|-------------------------------------|---|---|
|                                   | Chinese<br>GNP<br>(Billion<br>Yuan) | Average<br>Yuan-Dollar<br>Ratio for<br>Chinese<br>Product Mix | Value of<br>Chinese<br>Output<br>(Billion<br>Dollars) |
| Consumption                       | 50.77                               | 0.94  | 53.90   |
| Government purchases              | 7.92                                | 0.61  | 12.97   |
| Gross domestic investment         | 10.09                               | 2.00  | 5.02  |
| Net foreign investment            | -0.92                               |   | -0.44*  |
| TOTAL                             | 67.86                               | 0.95  | 71.45   |
| Chinese GNP as per cent of US GNP |                                     |   | 20.6  |

\* Converted at official exchange rate for 1952 of 2.10 yuan to 1 US dollar.

Table 21  
VALUATION OF COMMUNIST CHINA'S GNP IN  
TERMS OF US PRICES IN 1955

|                                   | Comparison in Yuan Values           |   |   |
|-----------------------------------|-------------------------------------|---|---|
|                                   | Chinese<br>GNP<br>(Billion<br>Yuan) | Average<br>Yuan-Dollar<br>Ratio for<br>Chinese<br>Product Mix | Value of<br>Chinese<br>Output<br>(Billion<br>Dollars) |
| Consumption                       | 67.50                               | 1.02  | 65.97   |
| Government purchases              | 10.73                               | 0.70  | 15.30   |
| Gross domestic investment         | 14.95                               | 1.95  | 7.65  |
| Net foreign investment            | -1.08                               |   | -0.44*  |
| TOTAL                             | 92.10                               | 1.04  | 88.48   |
| Chinese GNP as per cent of US GNP |                                     |   | 22.6  |

\* Converted at the 1955 exchange rate of 2.46 yuan to 1 US dollar, based on the cross rate with the pound sterling.

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Table 20  
COMPARATIVE VALUE OF CHINESE AND US GROSS  
NATIONAL PRODUCT IN 1952

|                                   | Comparison in Yuan Values      |  |   |
|-----------------------------------|--------------------------------|--|---|
|                                   | US GNP<br>(Billion<br>Dollars) | Average<br>Yuan-Dollar<br>Ratio for<br>US<br>Product Mix | Value of<br>US<br>Output<br>(Billion<br>Yuan) |
| Consumption                       | 218.42                         | 3.45   | 752.76  |
| Government purchases              | 77.18                          | 3.03   | 233.64  |
| Gross domestic investment         | 50.66                          | 3.61   | 182.69  |
| Net foreign investment            | -0.16                          |  | -0.34*  |
| TOTAL                             | 346.10                         | 3.38   | 1,168.75                                      |
| Chinese GNP as per cent of US GNP |                                |  | 5.8   |

\* Converted at official exchange rate for 1952 of 2.10 yuan to 1 US dollar.

Table 21  
VALUATION OF COMMUNIST CHINA'S GNP IN  
TERMS OF US PRICES IN 1955

|                                   | Comparison in Yuan Values      |  |   |
|-----------------------------------|--------------------------------|--|---|
|                                   | US GNP<br>(Billion<br>Dollars) | Average<br>Yuan-Dollar<br>Ratio for<br>US<br>Product Mix | Value of<br>US<br>Output<br>(Billion<br>Yuan) |
| Consumption                       | 253.97                         | 3.71   | 941.76  |
| Government purchases              | 76.80                          | 2.96   | 227.46  |
| Gross domestic investment         | 60.56                          | 3.07   | 185.80  |
| Net foreign investment            | -0.47                          |  | -1.16*  |
| TOTAL                             | 390.86                         | 3.46   | 1,353.86                                      |
| Chinese GNP as per cent of US GNP |                                |  | 6.8   |

\* Converted at the 1955 exchange rate of 2.46 yuan to 1 US dollar, based on the cross rate with the pound sterling.

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converting Chinese investment expenditures to dollars the proportion of total investment used for equipment is reduced to about 11 per cent, since the labor used increases greatly in value relative to machinery and equipment when the two are priced in US prices. The comparison shows the much larger proportion of US gross investment expended for additions of machinery and equipment to the capital stock. The difference between the value ratios of the Chinese to the US product mix in dollars and in yuan, however, is much less than for consumption or government purchases.

Summary of Comparison between the GNP of Communist China and the GNP of the United States

Two factors in combination determine the results of these comparisons of the GNP of China and of the United States: differing price structures and differing product mixes. Behind these lie differing factor endowments and differing techniques in production. Using the Chinese product mix, a yuan-dollar ratio of 0.95 yuan per dollar is obtained, resulting in a dollar value of Chinese GNP of \$71 billion. Conversely, when the US product mix is employed, a yuan-dollar ratio of 3.38 yuan per dollar is obtained, implying a dollar value of Chinese GNP of about \$20 billion. These valuations serve as a measure of the relatively small capability of the Chinese economy for producing and using a wide range of goods, for adding the complex equipment required to increase rapidly the productivity of the Chinese economy, and for adding complex weapons and equipment needed to modernize the military establishment of China.

Valuation of China's 1955 GNP in  
1955 US Prices

The detailed price comparisons for 1952 have been roughly adjusted for price trends in each country by major category, such as food prices and construction costs, in order to value China's GNP in 1955 at 1955 US prices. Table 21 summarizes the results.

APPENDIX

DIRECT VALUATION OF  
AGRICULTURAL PRODUCTION,  
1952

The following table summarizes the results of an estimate of the value of agricultural production in 1952 using estimates of physical production and available price data. Such an estimate is necessary to analyze and evaluate the aggregate figures in official statistics and for production indexes for major components of agricultural output. The estimates derived here are presented in column 2 of Table 2, page 20.

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## ESTIMATE OF FARM VALUE OF FARM PRODUCTION, 1952\*

(Billion Yuan)

|  | Value at<br>City Retail<br>Prices | Average Farm<br>Procurement Prices<br>as Percentage of<br>City Retail Prices | Value at<br>Farm Prices |
|--|-----------------------------------|--|-------------------------|
| Basic food crops   | 30.97                             | 66 <sup>†</sup>  | 20.36 <sup>‡</sup>      |
| Industrial crops   |                                   |  |                         |
| Cotton   | ...                               | ...  | 1.38 <sup>§</sup>       |
| Oilseeds   | .89                               | 70 <sup>  </sup>   | .62                     |
| Jute, flue-cured<br>tobacco, and sugar                       | .94                               | 50 <sup>  </sup>   | .47                     |
| Vegetables and fruits  | 3.00                              | 75 <sup>  </sup>   | 2.25                    |
| Tea  | .09                               | 50 <sup>  </sup>   | .05                     |
| Livestock and poultry<br>products—meat, poultry,<br>and eggs | 7.16                              | 70 <sup>  </sup>   | 5.01                    |
| Silk and wool  | .42                               | 50 <sup>  </sup>   | .21                     |
| Subtotal   |                                   |  | 30.35                   |
| Production not valued  |                                   |  | 1.60**                  |
| TOTAL  |                                   |  | 31.95                   |
| Subsidiary occupations                                       |                                   |  | .70 <sup>††</sup>       |
| Forestry products  |                                   |  | .34 <sup>††</sup>       |
| Marine products  |                                   |  |                         |

\*The estimates for physical production are based on "The Statistical Tables," except for other oilseeds besides peanuts and rapeseed, vegetables, fruit, wool, forestry products, poultry, and eggs. Meat production was estimated from livestock figures and average slaughter rates. Production of vegetables was estimated at 19.3 million tons and fruits at 3.8 million tons, based on sample per capita consumption of these products in relation to consumption of basic food crops. Production estimates for sesame and miscellaneous oilseeds, wool, and fuel wood are projected from data on pre-Communist production, and eggs and poultry are estimated on the basis of the ratio of poultry to livestock numbers. Half of lumber is reported in the First Five Year Plan as produced by individuals.

<sup>†</sup>City retail prices for most agricultural products are available with much wider coverage than farm procurement prices. For basic food crops and cotton, data on farm procurement prices are used. Other products have been valued at city retail

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prices and data are used on the average ratio of farm procurement prices to city retail prices to secure an estimate of the farm value of production.

<sup>‡</sup>Data on farm procurement prices for 1953-1955 are used for valuing all basic food crops except sorghum, barley, peas and beans, and potatoes. For these crops the average farm procurement price for paddy rice is used together with the ratio of the crop concerned to paddy rice that was fixed for tax collections in Kiangsi (Kiangsi Jih-pao [Kiangsi Daily], Nan-ch'ang, October 20, 1956) to secure an estimated price for these crops. In the case of rice and wheat sufficient price quotations were available to warrant using an average price weighted by the estimated production for each province concerned. The total value of output in prices of 1953 and after were converted to estimated 1952 prices by applying the 8 per cent rise in procurement prices announced in the Communist press (see page 110). The average value at retail prices, allowing for weight lost in processing, and the ratio of the farm procurement price to the city retail price are given solely for purposes of comparison with other agricultural products.

<sup>§</sup>The farm procurement price for cotton is taken as 8.5 times that for unhulled rice (Kuo-min Ching-chi Shih-yung Tsu-tien [People's Practical Economic Dictionary], Shanghai, 1953).

<sup>||</sup>Since, according to an article on the relationship of purchasing and selling prices to farmers of typical commodities (Ta Kung Pao, Tientsin, July 18, 1956), the purchase price for peanut oil is 69 per cent of the selling price, 70 per cent is used for oilseeds in the absence of better data. The same article gives the relationship for pork as 69 per cent, brown sugar as 52 per cent, leaf tobacco as 49 per cent, jute as 46 per cent, and ramie as 50 per cent. An average of 50 per cent is therefore used for the other industrial crops, and 70 per cent for meat, poultry, and eggs.

<sup>\*\*</sup>Farm prices for vegetables are not available, but much of this produce is sold directly by farmers, no processing is involved, and the average differential in all likelihood is somewhat less than for meat or vegetable oils.

<sup>††</sup>This allows 5 per cent of total farm production, excluding subsidiary farm income for fodder crops and miscellaneous crops not included in the direct valuation of farm production.

<sup>†††</sup>Production of fuel wood is valued at 66 per cent of city prices for fuel wood, as with basic food crops. Lumber and marine products are valued on the basis of data on procurement prices.

## INDEX

Tables are denoted by an asterisk (\*). References to the Sector Accounts (Tables II-VI) will be made to those items of the sector account in the chapter in which they are estimated and not to the corresponding items in other sector accounts.

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